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## ECONOMIC

### FOREIGN POLICY, FOREIGN MINISTRY UNDER ABE EXAMINED

Tokyo SHINKUJIN in Japanese May, Jun 83

[Article: "All About the Japanese Foreign Ministry"--Part I by Takashi Ishitani, Part II by Takashi Ino]

[May 83, pp 44-52]

[Text] Internationally our country is in an extremely difficult position, including the economic friction with European and American nations, the request for increased defense potential, and others. For our country which has no military power to support our appeal for our national interest, it is not too much to say that diplomacy is indeed the only means of guarding the peace and safety of the nation and of achieving prosperity.

Nevertheless, the reality is that the tradition-bound compartmentalized administration is turned against unitary diplomacy. Even in exterior economic problems, economic agencies directly face the difficulty and thus frequently "diplomatic power" is substantively reduced.

Are we to be satisfied with this? For Japan which carries more weight year after year as a member of the free world to satisfactorily carry out its long-term plans and to try for coexistence and coprosperity, are both government and private sectors not required to reconsider a new way of diplomacy?

From such a viewpoint we would like to offer some guidelines through an analysis of the current condition of the Ministry of Foreign Affairs and from the future prospects.

### Other Nations Prize Posture of Deeds Matching Words

It was on 27 December 1983 that the Nakasone cabinet with the catchword, "work first," was inaugurated. In response to the announcement of former prime minister Suzuki's sudden retirement, the progovernment party, the Liberal Democratic Party, became very fluid. Through the elections for presidency, the Nakasone party representing the coalition of the mainstream factions, took over power. It is said that the last of the faction leaders popularly called the "Miki-Tanaka-Ohira-Fukuda-Nakasone faction" finally and luckily took over power.



The Nakasone cabinet was started facing numerous tasks in domestic and foreign politics led by administrative reforms. Many were worried about its future. Some were apprehensive that his hawkish character might invite uncalled for confusion. Part of it turned out to be true as expected. But since he has adopted a faithful attitude toward his promise of "work first," his reception by financial circles has been better than expected.

The real power in the cabinet which props up the Nakasone administration consists of Foreign Minister Abe, Finance Minister Takeshita, and Chief Cabinet Secretary Gotoda. Abe and Takeshita exercise their leadership with the power coming from their vanguard positions among the new leaders, and Gotoda is solidly controlling administrative tasks.

It is said that when Nakasone organized his cabinet he spent most of his energy in persuading Abe to join it. His aim was correct. It is unanimously agreed that Abe clearly shows brilliance in policy development in the cabinet. The Nakasone cabinet is now strongly supported by Abe. They have misgivings about Nakasone's "overplaying his hand," but they "rest" assured because Abe is there with him." This perception perhaps succinctly expresses the feeling of the people.

In order to search for Foreign Minister Abe's problem consciousness, let us introduce his utterance at the time of his inauguration. He spoke as follows in his interview with a MAINICHI reporter.

"[Question] What is your basic posture in diplomacy?

"[Foreign Minister] I would like to aim for a diplomacy that the people can easily understand and that every foreign country can trust. Since we are in a difficult time, I will proceed that much more cautiously with diplomacy.

"[Question] Can you be a little more specific?

"[Foreign Minister] Strictly keeping a promise once it is made, and clearly making others understand what we cannot do--this is the way to build trust. I would like to proceed with the posture of matching deeds with words. It is said that when the principle is established, ways are found, so if I evaluate information on the basis of basic principle, I believe I can find ways. First of all, we stand on the fundamental fact that Japan is in Asia, and we unfold our diplomacy with Japanese-U.S. relations as the axis. On this basis, we cope with each problem.

"[Question] Do you mean that you will think about Japan's relations with the United States first?

"[Foreign Minister] Relations of trust exist between Japan and the United States. But in economy and defense, Japan has received requests and criticisms from the United States. It is important for the new cabinet to further deepen Japanese-U.S. relations. For that reason it is crucial that Japan and the United States hold a summit conference as soon as possible."

Foreign Minister Abe, who with the posture of "matching deeds with words" is developing diplomacy with Japanese-U.S. relations as the axis, concentrated his diplomatic efforts on the realization of a Japanese-U.S. summit conference.

#### Leadership Will Be Exercised in the Opening of Our Market

At the first meeting between Prime Minister Nakasone and President Reagan the strengthening of the Japanese-U.S. alliance was confirmed and at the same time deeper bonds between the two nations over a wide range, including economy and defense, were promised to be realized with more specificity. A new chapter was added to Japanese-U.S. relations.

The groundwork for the Japanese-U.S. summit conference was laid in three ways. These were the foreign minister's visit to Europe, the Japanese-South Korean summit conference, and the acceleration of the opening of the market to dissolve economic friction.

Early in the year, Foreign Minister Abe went to Europe to confer with President Mitterand of France, Prime Minister Thatcher of the United Kingdom, Chancellor Kohl of West Germany, Prime Minister Fanfani of Italy and President Thorn of the European Community.

On the background and aim of his trip to Europe, the foreign minister spoke as follows immediately before his departure: "Japan is a member of Asia, and at the same time also a member of the West. In this position, Japan must promote a diplomacy of peace with Japanese-U.S. diplomacy as the axis. Prime Minister Nakasone went to the United States in early January to hold a summit meeting with President Reagan. We must send diplomatic messages to the European nations, too. Since the prime minister has no time, I decided to fly to Europe. In its background is the big change in the international situation, particularly the serious condition of the international economy. On the basis of the strong criticisms from European Community nations against their economic relations with Japan and the emergence of protectionism in the European Community, I have judged that it is better to visit Europe as soon as possible."

As was expected at places he visited, complaints and dissatisfaction about the Japanese economy were heaped upon him. But some gave a high rating to Japan's efforts to open the market. Entwined with the cause for unity of the West, the foreign minister's ground leveling brilliantly succeeded.

After his return from his trip to Europe, Foreign Minister Abe accompanied Prime Minister Nakasone on his visit to South Korea on 11 and 12 January, and sat in at the conferences with President Chun.

Japanese-South Korean relations were constantly creaking for the past several years. South Korea's request for a \$6 billion loan had difficult going in negotiations in the background of South Korea's criticism of textbooks, and the tension between the two nations was heightened.

Because the Nakasone cabinet regarded the strengthening of the unity of the West important, it judged that consolidating friendly neighborly relations with South Korea was necessary before the Japanese-U.S. summit conference. Thus, in one package it proposed a Japanese-South Korean summit conference to restore friendly relations at the same time as it offered a \$4 billion loan. It was one of the diplomatic successes which showed the image of the prime minister who advocated "work first."

At the same time, with Foreign Minister Abe at the center, preliminary work for the opening of the market was earnestly performed.

Because of the serious world recession, advanced European and American nations, too, are suffering from inflation and unemployment. Imports of large quantities of Japanese goods into those countries are "regardless" inconvenient. Even though they fly the banner of free trade, in actual practice they cannot help but lean toward protectionism in trade. Economic friction and trade friction are brought to the arena of diplomacy, whether we like it or not.

As for the Japanese side, it cannot help but reach the judgment that taking into consideration the circumstances of each nation contributes to maintaining free trade and to consolidating the unity of the West.

Foreign Minister Abe strongly recommended the acceleration of the opening of the market to the prime minister, and he called the tune in the promotion of the open policy. At this time 1) the reduction of tariffs, 2) the expansion of import quotas and 3) the simplification of import procedures became the pillars of the open policy. The United States had strongly requested the liberalization of oranges and beef, but this request was finally passed up because the opposing movement by the Ministry of Agriculture and Forestry and the concerned sources in Japan was extremely fierce. On the other hand, the tariff rates of tobacco, chocolate and biscuits were drastically reduced, and a favorable environment was created especially for the imports of American tobacco. Although the United States scored considerably well, it would still want to realize the liberalization of oranges and beef by all means. The opening of the second round will not be too far off.

Trade friction is often related to the way the economy and industry are managed, and to the difference in the quality of culture. Therefore, fully resolving trade friction is sometimes extremely difficult. But, on the other hand, it is possible to turn it into a kind of opportunity because some aspects otherwise not ordinarily involved can be dealt with. It is essential that this Perry's "black ship" shock [external pressure] be reflected on administrative reforms.

Considerably intense criticisms on the import procedures of our country have been mounted from various foreign countries. But nobody really knew the condition of our import procedures. There were technical aspects to the procedures and there prevailed an atmosphere of concealing the real condition in the field as a confidential matter. Complaints from foreign countries were lightly dismissed as "misinterpretations caused by language barriers" or as "exaggerated expressions by foreigners."



But this was really a mistake. For instance, while the rule book lists it as "pineapple," import would not be allowed if it was indicated as "pine-apple." This was extremely farfetched, and it could be accepted as nothing but an attempt to create a nuisance for the other party. Such an attitude of refusing imports on such trivial grounds in every case used to be frowned upon. Now the Japanese people need to think over such bad customs.

#### "Dual Diplomacy" by MITI and Foreign Ministry Requires Correction

Foreign Minister Abe was formerly minister of MITI. How his knowledge in international trade and industry administration and his strong economic background raised the quality of his diplomacy! The breadth of diplomacy is wide. In the case of our country, economic diplomacy occupies a central position. For this reason, the "diplomacy" conducted by the MITI appears somehow in the main street, and "dual diplomacy" is created together with the proper diplomacy conducted by the Ministry of Foreign Affairs. Confrontation and dispute between the two have even become routine, to put it extremely.

Diplomacy belongs to the scope of responsibility of the Ministry of Foreign Affairs. Diplomacy conducted through other channels by other government agencies leads to a division in the will of the nation, and it leads to results contrary to the national interest because of the impression thus created. Nevertheless, there are some misgivings about "What nonprofessional diplomats could do." Confrontation between the Ministry of Foreign Affairs and the MITI was inevitable in a sense, given Japan's position and stand. In this background, the fact that a veteran in international trade and industry became foreign minister has brought the effect of killing two birds with one stone. The fact that the economic friction has recently been dissolved in a stroke tells us the power of Abe diplomacy with the strength of Samson.

But it is not that the sparks of controversial problems have disappeared. For instance, France. As the imports of Japanese-made video tape recorders were suddenly increased, France tried to annoy Japan by limiting customs procedures to one inland point at Poitiers. Japan got fed up with such a restriction, and proposed a policy to restrain the effort. We feel uneasy because we will not be able to know what France might do next. The Mitterand Administration is not incompetent by any means, but it has met difficulty in finding a way to economic rehabilitation. It's quite pitiful that France is demonstrating herself that ideological politics has no power to solve problems actually.

Such a problem is not limited to France. The Soviet Union, too, is agonized over economic failures. As of now the Andropov administration cannot show effective prescriptions, and its national prestige is barely maintained in the military aspect. As such unreasonableness was intensified, the threat of Soviet military power was concretely demonstrated as in its invasion of Afghanistan, and the Japanese-U.S. summit conference, too, had the anti-Soviet alliance as one of its aims. This is the background from which the "reference to the unsinkable aircraft carrier" was made.

### Misgivings Also About Prime Minister Nakasone's Hawkish Statements

In response to a question in an interview with the WASHINGTON POST, while visiting the United States, Prime Minister Nakasone said, "Japan is an unsinkable aircraft carrier." This was severely criticized in Japan as "improper." It was clarified later that the prime minister said a "large aircraft carrier" and his translator freely translated it as an "unsinkable aircraft carrier." But judging from the fact that the prime minister did not deny his reference to the unsinkable aircraft carrier, we know that he used it as a synonym.

In his general-policy speech on 3 December 1982 the prime minister stated in reference to relations with the Soviet Union, "I am determined to solve the northern territories question to sign a peace treaty, and to do my utmost to establish stable Japanese-Soviet relations based on true mutual understanding." Regardless of his wishes and determination, the desire of the West, which strongly feels the Soviet threat, to counter it with unity has been expressed as the moves for the Europe-U.S.-South Korea-Japan axis.

Trends in domestic opinion display the thinking that while strengthening ties with the free world is desirable, inciting the Soviet Union should be avoided, and Japanese-Soviet friendship should be attempted. Therefore, the hawkish statements and attitudes of the prime minister create misgivings and expectations on Foreign Minister Abe have been intensified. The foreign minister's soft and pragmatic attitudes have created a favorable perception.

As a new story, we have military technology to be offered to the United States. Since it is treated as an "exception" to the restrictions under the three principles regarding weaponry, criticism against the government is somewhat strong. But in view of the close relations between Japan and the United States, extraordinary consideration for the United States is necessary. We must not forget the realistic premise that diplomacy based on the Japanese-U.S. axis contributes to world peace. Abe's diplomacy is based on that, too.

One of the important tasks of the Nakasone cabinet is the maintenance of defense potential. In his general-policy speech, the prime minister stressed the "consolidation of high-quality defense potential," and promised that "he would see to it that no military threat would be given to neighboring countries and the basic policy for peaceful diplomacy would be firmly adhered to."

The consolidation of defense potential contains problems with two sides of a shield. Even if the Soviet Union naturally opposes the consolidation of Japan's defense potential, Asian nations led by the ASEAN oppose it or they are strongly alarmed by it. There is a strong side which is far different from the purpose of the consolidation of defense potential. Therefore, our country must concentrate its efforts on the promotion of peaceful diplomacy so as to have its true intention fully understood. It would be inevitable that a certain type of brake would be finally placed on the pace of the consolidation of defense potential.



## Active Personnel Exchanges With Other Ministries and Agencies Proposed

With the unfolding of Abe's diplomacy, personnel changes at the Ministry of Foreign Affairs also acquired a new flavor. At the 28 January cabinet meeting, the government approved Deputy Minister Ryozo Sunobe's voluntary retirement. Assistant Deputy Minister Nobuo Matsunaga was appointed as his replacement. Consul General Moriyuki Honno of New York was appointed Assistant Deputy Minister for Foreign Affairs to replace Matsunaga. The director general of the Central and South American Bureau, Sumio Edamura, replaced Muneoki Date as Deputy Minister for Administration. Date was appointed to an ambassadorial post. Consul General Mitsuhiro Hasumi of Sydney was appointed director general of the Central and South American Bureau. These were a series of personnel changes.

Matsunaga graduated in 1944 from Tokyo University Law Department, in 1946 he joined the Ministry of Foreign Affairs, and was appointed director of the personnel Division, director general of the Treaties Bureau, Assistant Deputy Minister for Administration, and ambassador to Mexico. In December 1981 he was appointed Assistant deputy minister for Foreign Affairs. He was born in Tokyo Metropolis 60 years ago. He is in the prime of his career. He is expected to provide businesslike leadership. With the retirement of Sunobe who had been appointed as a result of "exceptional personnel change," the atmosphere at the Ministry of Foreign Affairs was changed for the better.

Honno, who has become assistant deputy minister for Foreign Affairs, joined the Ministry of Foreign Affairs in 1948, and graduated from Tokyo University Law Department in 1949. He was a secretary to the prime minister, director general of the Economic Affairs Bureau, and ambassador to Morocco. Since December 1980, he served as Consul General in New York. He was born in Tokyo Metropolis, and he is 58 years of age.

In the recent personnel changes, Jiro Aiko, deputy director of the Agency for Natural Resources and Energy of the MITI, outshone others as he was appointed ambassador to Kuwait. This was part of the personnel exchanges between the Ministry of Foreign Affairs and the MITI. This may be said to be the success of Abe's diplomacy for domestic consumption.

Aiko graduated from Tokyo University Law Department in 1955. After joining the MITI, he served as director of the General Affairs Division of the Life Industry Bureau, and minister at the Japanese Embassy in the United States. From October 1982, he was deputy director of the Agency for Natural Resources and Energy. He was born in Kanagawa Prefecture and he is 50 years old. He has diplomatic experience in Washington. It is indeed a desirable course for him to be transferred as ambassador to Kuwait, an oil-producing nation, after he engaged in energy administration. Conduits will be open between the two hitherto unfriendly ministries, the Ministry of Foreign Affairs and the MITI.

The second shot in personnel exchanges that Foreign Minister Abe fired was the appointment of Shizuhiko Yamamoto, former director of the National Police Agency, as ambassador to Belgium. As he was the first ambassador out of the police field, his appointment surprised everyone. Yamamoto graduated from

graduated from Tohoku University and joined the Ministry of Home Affairs in 1943. When he was director of the Third Public Security Section of the Metropolitan Police Board he went alone to the United States to interview a former Soviet spy, Rastropov [phonetic]. The Kim Tae-chung incident occurred when he was director of the Security Bureau. He has been closely related to international politics, particularly its hidden side. He served as director of the National Police Agency for 3 years, beginning in 1978. His life was spiced up with the experience he had as first secretary at the Japanese Embassy and the language he mastered on his own as a young man while in France. After his retirement from the position of directorship of the National Police Agency, he quietly served as chairman of the board of directors of the Automobile Safety Driving Center. At last he appears on a main stage now. He is 62 years old. His appointment is a model case of utilizing qualified persons.

While Abe accepted Yamamoto as an ambassador, he is thinking of dispatching an important person to the National Police Agency. It is strongly recommendable that diplomats study domestic affairs through the police agency. Recently there is a strong move even among judges to study society by inspecting the front line of the mass media. This is an ideal try to remove rigidity in the thinking of those who engage in simple occupational life, and to try to reactivate qualified people. In order to nurture "diplomats who are familiar with the domestic affairs of Japan" mutual personnel exchanges must be carried out more actively in the future.

#### Strengthening of Diplomatic Functions Is an Essential Task

The Second Ad-hoc Council for Administrative Reforms submitted on 14 March its final recommendations and dissolved itself. But it is not known too well that in its recommendations the role of diplomats was rated highly and the consolidation of the Ministry of Foreign Affairs was strongly advocated. The Ad-hoc Council sternly inquired after waste in administration and sought simplification of organization, efficiency of management and clarification of responsibilities. When the Ad-hoc Council is mentioned, people tend to associate it with nagging and preaching. But as far as the Ministry of Foreign Affairs is concerned, administrative reforms are strongly forward looking.

The final recommendations of the Ad-hoc Council on the Ministry of Foreign Affairs, in the part dealing with reorganization and rationalization of internal bureaus and divisions, state as follows:

"With the recent change in the international environment, the rise of our international position and the deepening of international mutually dependent relations, the strengthening of the diplomatic functions has become an essential task. For this purpose it is imperative to consolidate a system capable of unitarily performing foreign affairs, to introduce international perspective into administration in general, and to strengthen the functions of the Ministry of Foreign Affairs, and especially to consolidate and strengthen the function of collecting, analyzing and managing information, the policy coordination function within the ministry, and the publicity and cultural exchange function." And with regard to the direction of reorganization seven items are mentioned. Among them is the "establishment of the 'Information and Research Bureau' (tentative designation) in order to strengthen the comprehensive

and accurate research and analysis of international situation from a free standpoint, away from the regional and functional processing of pending problems, and concurrently to strive for the consolidation of international information management, and information and liaison with concerned ministries and agencies."

The consolidation of the Ministry of Foreign Affairs has become an immense task of our country. Because the number of diplomats is small and the budget is inadequate, our country has not by any means reached the level of the advanced and first-rate nations. For our country which has scant domestic resources and which has to strive for the safety and prosperity of 110 million people only through the maintenance of peace and the power of diplomacy, it is unbelievable that the Ministry of Foreign Affairs is treated so coldly. For the sake of the national interest, we must implement measures as soon as possible to expand and strengthen the Ministry of Foreign Affairs. We would emphatically like to point out that we must understand and support Abe's irritated feeling.

According to surveys, per person travel expense of Foreign Ministry officials at overseas posts was reduced 40 percent compared to 1975, and their entertainment expenses were down to the 20 percent level. In other words, the entertainment expenses of embassies were reduced 80 percent compared to 8 years ago. This was caused by the fact that the budget was implemented without consideration of the marked change in price levels. It is said that in the case of an ambassador, if he goes on a trip to inspect his jurisdictional area, 3 months' budget will be spent. If this is the case, even if he wants to engage in a dialogue with the people in his host country and to strive for mutual understanding, he cannot do it because of budgetary restraint.

Here is another example. When a director general of a bureau in the Ministry of Foreign Affairs goes on a trip to New York, he is allowed 16,700 yen for lodging for a night and per diem of 5,400 yen. In New York even a third-rate hotel will certainly cost about 25,000 yen for a single night. The people must know with indignation the harsh fact that a director general of a bureau in the Ministry of Foreign Affairs of Japan, a superpower, cannot even stay at a first-rate hotel. Is it not shameful for Japan?

If we keep mentioning figures, the number of employees of the Ministry of Foreign Affairs is 3,600. That of the United Kingdom is 9,100, that of West Germany is 6,100, and that of France is 7,200. It is not unreasonable that we hear some lament that "We should have at least 5,200, on the Italian level..."

There used to be much criticism of the Ministry of Foreign Affairs and diplomats. Certainly there were such complaints as: "They are not making efforts in the economic area because they are locked in the traditional realm of diplomacy," and "They have no understanding of the Japanese economy whatsoever." This was an aspect that no one could deny. Whatever must be corrected must be corrected. As a matter of fact, there have been considerable changes. With Foreign Minister Abe at its head, further change in the frame of mind is visible.



But it will not suffice only to criticize the Ministry of Foreign Affairs and diplomats. We must accomplish as soon as possible the "national task" as it has been delineated by the Ad-hoc Council.

"Diplomacy does not bring in votes," they say. They say that no matter how brilliant the diplomacy conducted by the foreign minister, it will have no favorable impact on elections. Diplomacy does not come into the sight of politicians, and foreign affairs are treated coldly in the budget. Even though our country prides itself on being an advanced nation, realities in diplomacy coldly tell us of the lagging image of Japan. Determination and efforts to double the Ministry of Foreign Affairs budget and personnel are required for the national interest. The quality of Japanese politics is tested again.

Probably Abe diplomacy may have to be energetically thrust toward domestic politics, too. We wish we could bring about a dawn of Japanese diplomacy through administrative reforms supported by public opinion.

[Jun 83, pp 44-52]

[Text] Courageous Utterances One After Another

Diplomacy by government leaders was unfolded with Prime Minister Nakasone's trip to each of the ASEAN nations, Foreign Minister Abe, Finance Minister Takeshita and International Trade Minister Yamanaka's attendance at the OECD and the Ministerial Council of International Energy Agency (IEA), and also at the trade and finance ministerial conference of the seven advanced nations.

Probably by the time this issue is published, the summit conference of the advanced nations will be over. And diplomacy in the arenas of international conferences will be evaluated from many angles and viewpoints.

Putting aside discussions by experts on its evaluation, the impression that diplomacy has imparted to the "general public" should be different from that in the past image.

Until now many nations have had misgivings and doubts about Japanese diplomacy because it "did not have its own self-assertion," and "it did not clarify how they were going to use their economic leverage."

This is also caused by the fact that Japan cannot conduct its diplomacy with the background of its international and geographical conditions and its military power.

But, a typically Japanese attitude that does not clearly express their opinions affirmatively or negatively prevails. That is, it cannot be denied that the social sense that sincerity will be understood in time leads to misunderstanding and distrust by the opponent.

The style of the Japanese Foreign Ministry, to say nothing of Foreign Minister Abe's posture for "easy to understand diplomacy," has changed recently.

The new establishment of the Information Division (5 April) is probably charged primarily with the collection of information on the international situation and its analysis. Although it is not staffed and budgeted adequately to function fully, it will play an important role in promoting diplomacy which responds to the trends of each nation.

Although it is not necessarily in line with that policy, the "courageous utterances" of high-ranking Foreign Ministry officials are worth noticing. Utterances of diplomats in the field merit attention as well.

For instance, at the first meeting of the Japanese ambassador to the Soviet Union, Takashima, with the chairman of the Council of Ministers, Tikhonov (on 4 April), Ambassador Takashima touched upon our northern territories which the Soviet Government has kept insisting "do not exist," and reportedly stressed that "at least the existence of the problem should be acknowledged."

It is rare for such give and take regarding national interest to be exchanged at the first courtesy call.

Now, as to the main tasks of Japanese diplomacy, Nobutoshi Nagano, lecturer of Tokai University, who is well versed in the "Foreign Ministry diplomacy" enumerated: 1) the territories question (our northern territories); 2) national security based on Japanese-U.S. relations; 3) dissolution of economic friction for Japan as a trading nation; 4) improvement of Japanese-Soviet relations; 5) stabilization of Japanese-South Korean relations; 6) promotion of Sino-Japanese friendship; 7) closer relations with the ASEAN, and 8) strengthening of relations with Middle Eastern nations. On this, the authorities concerned commented that "pertinent tasks are mentioned."

#### Logical Argument in Spite of Soviet Intimidation

Different from the Soviet Union, our country cannot develop "power diplomacy" with a powerful military force in the background. Also, given that the U.S. potential of war deterrence has been weakened relatively, and moreover economic cooperation between Japan and the Soviet Union, including fisheries, is necessary, improving our relations with the Soviet Union is important. But these problems are also deeply related to the international environment surrounding the Soviet Union.

The Soviet Union showed prompt and even overly excessive reactions to that utterance about the "unsinkable aircraft carrier" of the Japanese Islands.

The Soviet ambassador to Japan, Pavlov, denounced it as a "dangerous strengthening of militaristic trends." And he orally delivered the Soviet Government statement that although the Soviet Union had declared the obligation not to make preventive use of nuclear weapons and had proposed measures to build trust, the Japanese Government "turned its back," and for this reason the Soviet Government would "take appropriate measures" for the security of the Soviet Union.



The deployment of F-19 fighters to the Misawa Base and the Japanese offer of its arms technology to the United States incited the Soviet Union. In the Diet, too, the strengthening of the defense potential based on the "Soviet threat" was stressed.

The prime minister's reference to the "unsinkable aircraft carrier" may be excusable, but his declaration about "blocking straits" is tantamount to a declaration of war. Moreover, because he talked about his "hopes" for the revision of the constitution, concentrated criticisms from neighboring countries poured in.

As a result of the Soviet invasion of Afghanistan and Soviet pressure on the Polish Government, the West formed an anti-Soviet posture. On the other hand, if the scale of the Chinese People's Army deployed along the Sino-Soviet border is taken into consideration, the Soviet Union cannot remain indifferent to the moves of Japan.

But from the viewpoint of the mutual security of Japan and the United States, the offer of technology, as long as it does not violate the "three principles for arms exports" as in the Diet resolution, is natural, and also the deployment of F-16 Phantoms of the U.S. Air Force is similarly proper.

One would know if one takes a look at the globe that the Soviet Union is surrounded by the Western camp and the Sino-U.S. rapprochement can even be considered as an anti-Soviet alliance. That is why the Soviet Union would like to make it the reason for expanding the military bases in the northern territories and for strengthening the Soviet Far East Navy. But it conversely aggravates the uneasiness of the Japanese people.

The Soviet TASS News Agency stated that the Soviet Union would make Japan "a target for retaliatory attack" against the anti-Soviet "unsinkable aircraft carrier." Foreign Minister Gromyko, too, announced that should SS-20 missiles deployed in Europe be reduced, they would be transferred to Siberia for deployment. He thus suggested the strengthening of the nuclear attack force against Japan.

Members of the CPSU Central Committee outrank cabinet ministers in the government. Because one of them who was appointed ambassador to Japan and senselessly joked that "it would be very easy to occupy" part of Japan, many Japanese people felt that the joke revealed Soviet alertness and Soviet view of Japan.

COMMUNIST, the theoretical organ of the CPSU Central Committee, said that for Japan "strengthening the friendly relations between Japan and the Soviet Union would be more certain security than the American nuclear umbrella." But even after that, the Soviet Government and party stated that "nuclear weapons exist in waters surrounding Japan," and if Japan becomes a nuclear base, it will become a "target for retaliatory attack" (PRAVDA, the organ of the party, 8 April).

Against this, the Ministry of Foreign Affairs immediately quoted the "three nonnuclear principles," and countered that the Soviet contention was a false

charge, and that the cause for the increased tension in the Far East region was the "strengthening of Soviet military forces."

Foreign Minister Abe, too, clearly stated his view in the Diet that the "Soviet contention containing intimidation was a farfetched statement viewed from the standpoint of the UN Charter."

At the third Japan-Soviet business conference held in mid-April, both sides discussed the northern territories question and the deployment of intermediate range missiles, SS-20s, in the Far East, but their discussion consistently ran in parallel. At the talks, Deputy Foreign Minister Kapitsa explained that "the deployment of SS-20s in the Far East was to counter American ships carrying nuclear weapons and it was not targeted at Japan." He further proposed that if Japan consistently adhered to the three nonnuclear principles, the Soviet Union could sign an agreement for nonuse of nuclear weapons.

The highest responsible person (general secretary of the Communist Party) declared for the nonuse of preventive nuclear weapons. Threat with military force was warned against in the "Japan-Soviet Joint Declaration."

But since it has become clear that the Soviet Union places top priority on nuclear strategy, the weight of diplomacy as regards the Soviet Union should be on efforts to promote negotiations for the reduction of the INF, and to place the northern territories question on the agenda.

But, as a matter of fact, these two issues are the factors restricting the friendly relations between Japan and the Soviet Union.

In 1973, Prime Minister Tanaka said to General Secretary Brezhnev that "among unsolved postwar problems are the four northern islands," and listed the names of the four islands. In response the general secretary said, "That is true. I am aware of that." But by 1980 the situation had changed so much that a reporter for IZVESTIA, an organ of the Soviet Government, said: "Even as much as one-half of Hokkaido was never Japanese territory."

On that score, Sovietologists referred to the fact that "the international situation, especially the cooling of the Sino-U.S. rapprochement, served as a factor for turning around Soviet Far East policy." The concerned government sources did not deny such a view.

Therefore, "instead of taking a position that we cannot make an advance in Japanese-Soviet relations unless the territories question is solved, it is important that we create conditions for stabilizing relations" (Director of the Soviet Division, Tamba).

#### Utmost Efforts for the Restoration of Relations With U.S.

The perception that the Soviet Union underestimates our country is entertained not only by the government authorities but even by the Japan Communist Party, too.

The idea that the stabilization of Japanese-Soviet relations must be considered from an international perspective is a common denominator of not only the Japanese Foreign Ministry but also of every quarter concerned.

As a reflection of such an idea, Foreign Minister Abe confirmed with Secretary of State Shultz of the United States that "the reduction of INF must be carried out in a global form, including the Far East."

Taking into consideration the intention of Foreign Minister Abe, the secretary promised that "he would take a global approach." He assured that he would take the security of the Far East into consideration.

The basis of our Soviet policy has been to "aim at the totality, without separating politics from economy, and not to object to trade with the Soviet Union or any relations promoted by private sector initiative," "nor will this be altered in the future" (Director General of the European and Asian Affairs Bureau, Kato). This refers to economic and cultural exchange. For instance, in trade, exports of steel and iron and machinery to the Soviet Union showed an increase of 20 percent over the previous year, but imports from the Soviet Union tended to decrease due to the domestic recession. We cannot say that the government authorities are sensitive to such an imbalance, but we must give a high rating for their efforts to modify the Soviet view of Japan.

The ambassador to the Soviet Union, Takashima, appeared for the first time on Soviet Government-operated television to stress the "peace posture" of the Japanese Government, and furthermore appealed for the stabilized development of Japanese-Soviet relations.

What we should not overlook in advancing the friendly relations between the two nations, Japan and the Soviet Union, is Japanese-U.S. relations.

Foreign Ministry Advisor Saburo Oki commented on the purpose of diplomacy, "It is important to create relations which do not make an enemy out of Japan."

Since the nuclear arms race between the United States and the Soviet Union is now escalating, "Japan's stand is indeed how to avoid war between the United States and the Soviet Union" (the late Prime Minister Ohira). Our diplomacy vis-a-vis the United States entails extremely heavy responsibilities.

Our economic prosperity was unthinkable without American aid and the security system. As long as we stand with the democratic camp, the West, we must endeavor to strengthen relations with the United States in the future, too.

However, turning the relations into a "Japanese-U.S. military alliance" which will amplify the distrust between Japan and the Soviet Union is not a wise policy.

The defense and security policy of the Reagan administration which aspires for a "strong America" is, briefly put, the strengthening of the deterrent against the Soviet Union."

Certainly, the Soviet Union "does not agree to negotiations when the opponent has no power. Its typical example is strategic arms restriction talks" (Counselor of the North American Bureau, Ministry of Foreign Affairs).

According to informed sources, the Soviet Union has deployed 108 SS-20s in Asia, and as many as 75 Backfire bombers (nuclear weapon carriers) in the Far East.

When we read the defense report submitted by Secretary of Defense Weinberger and the report on the military situation by the Joint Chiefs of Staff, we find parts which suggest that a military alliance, including South Korea, can be expected.

It is a fact that within the U.S. Government there is a school which views Japan as having "a free ride in security," and at the same time from the financial aspect the "U.S. Government has the intention of letting Japan take over the defense of the Far East and Asia" (International Bureau of the Socialist Party).

Amid such an internal and international situation, as Prime Minister Nakasone stressed, the Japanese-U.S. community of common interest and the turning of the Japanese Islands into an "unsinkable aircraft carrier," he was welcomed in the United States.

Different from past prime ministers, Nakasone articulately expressed his thought and he was highly evaluated for his attitude. Caught unawares was the Japanese Foreign Ministry.

With regard to security, Japan has imparted the impression of an "economic giant," and the deterrent power of U.S. has been reduced. Accordingly, judging from the international situation, Japan has to take over responsibilities to some extent.

A high-ranking Foreign Ministry official said: "Rational strengthening of armament in our own judgment and responsibility is necessary. The stationing of U.S. forces has become the security and the deterrence of our country. We are willing to increase the burden of expenses." However, he says that we will adhere to the principle that full participation in American strategy would mean the degeneration of the Japanese-U.S. Security Treaty, and would be against the constitution.

On the impetuous U.S. demand for increasing and strengthening Japan's defense potential, the ambassador to Japan, Mansfield, said, "Excessive expectations might drive the Nakasone cabinet into a predicament." He went on to say that in a sense the prime minister's utterance would "entail an enormous risk." By this he rather expressed his misgivings.

This fact leads us to believe that the ambassador has full understanding of our political situation and Japan's international standpoint. He is a "true friend" to the Japanese Foreign Ministry. For this reason, when Japan proposed the observation of the three nonnuclear principles when the atomic-powered aircraft



carrier Enterprise visited Japan, he unmistakably replied, "We have faithfully carried out the Security Treaty and related agreements, and we guarantee that we will carry them out in the future, too."

#### Reduction of Measures for Protectionist Trade Requested

For our country, trade is the source of our economic activity. Enterprise revenues from exports have given the people an affluent standard of living, and, even if they live in rabbit hutches, enterprise revenues have raised the consciousness of the workers to the middle-class level.

Needless to say, growth in exports has brought about economic growth and it has increased individual income, but it has also brought trade friction along with it. At the "16th Briefing on the International Situation and Foreign Affairs Agenda" held in November 1982, the deputy director general of the Economic Affairs Bureau, Senoo, stated, "Friction is created primarily with Japan at the center. Japan increases exports and does not increase imports. This makes it difficult for every country. Something should be done. This is the problem of trade friction. This is not only a problem between Japan and the United States, and between Japan and Europe, a trade war is also going on between the United States and Europe, too. Why did such a thing happen? It is because the size of the pie has dwindled. Especially the United States used to take care of the problems of Europe, but that is not the situation now. Therefore, because it was taken up as an international problem, the problem has been blown up."

As to the friction between Japan and the United States, some view it as that because U.S. trade deficits increased, unemployment and recession piled up on top of each other, Japan as a scapegoat became a villain and trade friction resulted (Akira Watanabe, director of the International Bureau of the Democratic Socialist Party). But Barnett, a senior research fellow at the Carnegie Endowment for Peace and former deputy assistant secretary of state, said to Kuroiwa, a MAINICHI reporter, "The problem between the two nations to be solved first is the strong dollar and the weak yen. Speeding up the recovery of the U.S. economy is sought with priority. For this, international cooperation is necessary. We would like to have Japan make the yen strong, and the problem cannot be solved by making a scapegoat out of Japan."

Then, it is necessary to closely scrutinize the high interest rate in the United States. But because of the unfavorable economic conditions in the United States, the voice from production sites demanded the "restriction of Japanese imports and the opening of the Japanese market." This pressured the U.S. Government and Congress and the issue was turned into a political problem.

Some knowledgeable Americans consider that compared to other countries Japan is making efforts to open up its market. This is based on the forecast that Japanese competitiveness is strong, and even if Japan opens up its market to a fair extent, the trade imbalance will continue for a while. But this is only a minority opinion in U.S. public opinion.



According to a YOMIURI survey, the Japanese people feel that "even if the exports of U.S. agricultural products are liberalized, demands for them will not increase much." But the view that the Japanese Government nurtures industries with subsidies and it disturbs our market" (Gibbons, chairman of the Subcommittee on Trade, Ways and Means Committee, U.S. House of Representatives) strongly prevails.

That is, there is U.S. criticism of Japanese industrial policy. Now it has recently assumed an aspect of full confrontation over the validity of policies. A MAINICHI correspondent reported that the aim of the United States is to block rapidly increasing Japanese imports in the high-tech fields centering on semiconductors and to open the Japanese market. There has been criticism of Japanese industrial policy in the EC as well.

The Japanese Government decided to respond with the opening of the market, including the lowering of tariffs (in January), the extension of the restraints on automobile exports to the United States and voluntary restraints on VTR (video tape recorders) and other exports to the EC (in February), the drastic revision of the standard and certification system (in March), and to continue expanding the import quotas for agricultural products (in April).

However, the policy critique (in the United States) and the criticism on the closed market (in the EC) have not disappeared.

Okawara, ambassador to the United States, appeared on 15 April before a joint session of the Presidential Export Council and the Trade Negotiations Advisory Committee and stressed with specific examples that Japan was grappling with the solution of the trade problems. Furthermore, he strongly refuted the criticism of Japan by saying, "I do not believe that the Japanese market is closed, nor do the Japanese view the U.S. market as open as is generally believed to be."

Also Nobuhiko Ushiba, former Foreign Economic Advisor and currently Foreign Ministry adviser, who is known as a specialist on U.S. affairs, attended the seminar on Japanese-U.S. relations sponsored by Brookings Institution, the famous think-tank, and said in his speech, "There is unrestrained criticism of the trade friction, but a strong rebuttal for it can be found in Japan, too. If we let this condition run unchecked, basic Japanese-U.S. relations are endangered." It is nothing but a warning to the United States.

Leaders of all nations are racking their brains over the fact that friction intensifies protectionist trade and it tends to impair friendly relations between nations.

The Japanese-U.S. "Joint Committee to Examine Industrial Policy" inaugurated in May was organized because of such apprehension.

At the Ministerial Council of the OECD, too, Foreign Minister Abe proposed the reduction of measures stemming from protectionist trade, and succeeded in including it in a joint statement. Accordingly, they will make efforts to resolve friction even through ups and downs.

### Pragmatic Line For the Middle and Near East, and Asia, Too

For our country with scant energy resources, securing petroleum is indispensable. At the same time, if we take Soviet Middle and Near East policy into consideration, we must develop and strengthen relations with those countries even for the maintenance of peace.

"The Japanese stance toward the Middle East leaned toward the Arabs, different from Western Europe and the United States," (Hatano, Bureau Chief of the Middle Eastern and African Affairs Bureau) and it is said that Japan's attitude would be unchanged in the future, and even the prime minister's trip is under consideration.

It was after the fourth Middle East war that relations with our country were strengthened. Led by trade, cultural exchange and mutual visits of government leaders have increased year after year.

The intensifying relations between the two can be seen clearly in the shares in trade. Our exports showed about a 1 percent increase over the previous year, and our imports, an increase of about a 7 percent. More than 70 percent of crude oil, which covers about 30 percent of our total imports, is supplied from the Middle and Near East. Our trade deficit is as much as about \$30 billion (as of 1980, from "Information and Cultural Affairs Bureau, Ministry of Foreign Affairs," 1983).

In other words, our country is placed in a position of maintaining the economic condition that "we must maintain and develop friendly and cooperative relations with them from a long-term perspective." Therein lies the importance of sealane defense, too. The same thing can be said of the ASEAN.

The Soviet Union is attempting economic approaches to Southeast Asia. Reasons for this attempt are due to the domestic economic situation, but also to the strategic position in Southeast Asia, where the Soviet Union attaches importance.

"Relations between Japan and the five ASEAN nations are an essential diplomatic pillar as important as relations between Japan and China" (Asian Affairs Bureau). This can be understood also from the following data.

Southeast Asia contributes greatly not only to the "security of the Far East," but also to our industry and economy. For instance, 95 percent of the lumber, 99 percent of the rubber, 90 percent of the tin, 56 percent of the vegetable oil, and 39 percent of the bauxite imported by Japan is from the ASEAN nations (data for 1981).

Our country ranks first in offering funds to the ASEAN, and our country is the largest aid giver.

Some judged that the prime minister's recent trip to the five ASEAN nations dissolved the misunderstanding on the text book issue and on a series of pronouncements with "militaristic character" by Prime Minister Nakasone, and

strengthened relations with them. But the mass media generally take the view that he committed himself quite heavily.

The prime minister promised to each nation yen-denomination loans, free aid and cultural cooperation. Expenditures which will exceed 200 billion yen is not a light burden for our country, which is currently suffering financial difficulties. It is reported that Prime Minister Mahathir of Malaysia tenaciously negotiated by quoting the \$4 billion aid Japan offered South Korea.

But Prime Minister Nakasone might have had a desire for "insurance for security." Even if that were not the case, the amount can never be seen as too much, if it were to contribute to the stability and development of the five nations.

Japan said that it regretted its aggressive wars, and that it would "observe the constitution and would not become a military power." Further, it explained that the idea of sealane defense "did not include the ASEAN." Thus Japan tried to have every nation understand. An unidentified Foreign Ministry official said that in that respect his trip "achieved successes."

As he turned suddenly "dovish," some opposition members took it as aimed at the forthcoming House of Councilors elections. But in view of the international situation, his promises were valid measures.

The same thing can be said of South Korea.

YOMIURI SHIMBUN reported on Prime Minister Nakasone's trip to Korea, "Both nations as members of the free world are on friendly terms, but they were close, yet far apart. The prime minister's trip would be given high rating because it took advantage of such a situation."

In the textbook issue, the Japanese Foreign Ministry showed its understanding of South Korea's demand for revisions on description of "Japanese imperialist control." In contrast, the Education Ministry adopted an obstinate attitude. Thus, there was an aftereffect. Moreover, his trip was made amid the misgivings on the "Nakasone line for military expansion." For this reason his trip can be tentatively rated affirmatively.

But no matter what the realities are, an underground operation by a former Army staff man, Ryuzo Sejima, which bypassed diplomatic channels invited criticism of clandestine diplomacy.

As the maintenance of the peace and stability of North and South Korea is "an essential factor for the security of Japan and the peace and safety of all East Asia ("Blue Book on Foreign Affairs"), an impetuous support which might get involved in Reagan's hard posture toward the Soviet Union has given the Japanese people a slight uneasiness. But there is no reason for us to oppose the \$4 billion aid as long as it helps the stabilization of the people's standard of living in South Korea."

Next we would like to make special note of relations with China. It would not be wrong to judge that among our neighboring countries, China is the one which has a high opinion of Japanese diplomacy.

On Prime Minister Nakasone's "utterances indicating designs for marching toward militarism" (the Communist Party), the Chinese Government avoided mounting frontal criticism.

At about that time, the chief secretary of the LDP, Susumu Kikaido, as a special envoy of Prime Minister Nakasone, visited China, to explain the posture of Japanese diplomacy, that is, Japan's consideration of China as an important nation and Japan's desire for friendly relations. Partly because of this, Radio Beijing on 18 April reported Prime Minister Nakasone's statement to the Diet on 18 April which recognized the Sino-Japanese war as a "war of aggression," and stated that as Japan's prime minister he "for the first time formally acknowledged the aggressive war."

As he conferred with Chinese party and government leaders, "those points in agreement and those in disagreement were further enunciated, and as a result mutual understanding was further deepened" (ASAHI SHIMBUN).

In response to the pronouncement of Hu Yao-bang, general secretary of the party, that "even if Sino-Soviet relations are normalized China would like to maintain friendly relations between Japan and China," special envoy Nikaído reiterated the promise that the government policy to cooperate with the Chinese plans for modernization is unchanged. This may be "regarded important as a realistic support to the friendly line" (ASAHI).

An unidentified Chinese public information official said, "We are grateful for your friendly aid since the counterrevolution by the Gang of the Four was checked and the government set forth the four modernization lines, and this has been possible through the efforts of your diplomats."

The safety of our country is guarded by the "primacy of defense" and Japanese-U.S. security and the diplomacy of peace. Diplomacy has especially heavy responsibilities now amid the changing international situation.

Diplomatic potential is exhibited above all by the collection of information and prompt response. But it is also necessary to develop personal relations.

Now, the number of employees at the Foreign Ministry is at the same level of the prefectures with the largest number of employees. Its budget is equivalent to 30th place among the 47 metropolises, provinces and prefectures.

The number of employees who are working on "defense through diplomacy" and their budget may not be as much as those of the Defense Agency, but they are discouragingly small for a "brick office" developing the "strategy of peace." We must emphasize this situation.

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## ECONOMIC

### PROMOTION OF JAPAN-CHINA ECONOMIC COOPERATION DISCUSSED

#### Cooperation To Rebuild Chinese Industries

Tokyo NITCHU KEIZAI KYOKAI KAIHO in Japanese Jul 83 pp 8-16

/Report by Shoichi Moroguchi/

/Text/ Moroguchi /moderator of panel discussion group composed of anonymous participants A, B, C, and D/: The FY 1983 agenda for technologic cooperation in restructuring Chinese enterprises has already been reported. We would now like to have you discuss and question the way that would be the most effective procedure in the cooperative undertaking.

#### Cooperative Undertakings With Chinese Governmental Assurances Welcomed

B. Reviewing the events of the past 3 or 4 years, the tendency to decentralize seems to have thrown China itself into utter confusion with many central and decentralized projects just spinning their wheels. While I am still in ignorance of the extent to which these processes were conducted under real approval and how much with the infusion of foreign capital, it is undoubtedly a fact that much unrewarded service was rendered and considerable time and energy were expended for naught. In the light of that state of affairs, your statement that, minimal though it may be, a number of projects including some involving Japanese machinery makers, plant makers, and trading companies have been given specific endorsement is very welcome news.

However, even after the establishment of this semblance of order, I believe that the matter of establishing priority handling of diagnostic undertakings is still presenting some problems. I am inclined to agree with the Chinese who point out that when only one firm is specified, the price rises, indicating that even with some discipline, the solution is not a simple one. But I do believe that some projects are proceeding on a healthy course and can be rated positively.

D: Compared to the way things were handled in the past, the assembling process this time shows considerable progress and is worthy of much expectation. Putting it another way, from Japan's standpoint, it is probable that much smoother sailing would have been encountered had these programs, instead of big projects, been pursued from the beginning. However, there is still doubt as to how to resolve the decentralization problem. Another problem has to do with Japan, domestically.



To undertake restructuring of industry in China in the midst of its modernization program is a gigantic undertaking and it is my feeling that the cooperator and the subject of cooperation should approach the project in closer unity.

C: It is as all of you say. Japan's undertaking must include coping with one very difficult task after another. The manner in which this should be accomplished smoothly should be the overriding concern of both Japan and China for the immediate future.

By tradition, as in the days when China's central trading corporation was the only entity involved, China has approached negotiations on the assumption that they would be concluded even when there were indications that there would be some competition because it was known in advance that the need existed and both domestic and foreign financial arrangements had been pre-established. But because of the overly-extensive period of negotiations, the rights of the decentralized districts got caught up in them and that led to wheelspinning in many instances. Japanese makers and traders have become accustomed to this mode of transacting business and have learned to give propositions initiated by the Chinese a good going over with wide open and jaundiced eyes, this current attitude leaving something to be desired in projecting a positive relationship.

Even in the matter of industrial restructuring plans, every local area and each industry has independently come up with several, which in many instances are duplicative and overlapping, creating utter chaos. Japan on the receiving end has no way of knowing which one of the proposals is authoritatively based, and in this generally negative atmosphere, promoting a favorable restructuring concept is meeting with difficulties.

#### Regarding an Intent Oriented Technologic Cooperation Alliance That Can Be Evaluated

A: I feel that China could proceed a little more aggressively. Once it is decided that technology should be inducted, financing should not be conceived on small incremental bases but be put up even if it happens to be a little high; after all, technology is the item that has to be acquired. Buying ready cooked food won't contribute to improving one's culinary technique! In theory, aren't they tending to get ahead of their own capabilities? Conservation due to fear of criticism from some quarters should procedures bog down is understandable; it is understandable but it is not the right way to go.

C: This is a question. It is reported that of the 49 cases that went under industrial diagnostics, 5 moved into trade negotiations; what happened to the remaining 44?

Moroguchi: Of the 44 cases, 20 will be up for negotiations by a trade talk team that will arrive in Japan no later than the latter part of July. Although the Chinese have made no definite commitments as to how many of the remainder will be certified for trade talks, we would like to see 100 percent in trade negotiation status. Admittedly, however, the understanding reached mutually by Japan and China at the time, did not make clear a definite tie-in between "industrial diagnostics" and trade negotiations. Diagnostics placed emphasis on enterprise control, production control, and/or quality control and, therefore, there were

instances where diagnosis was not intended to be a prelude to trade negotiation. China will undoubtedly make judgments on a case by case basis, based on the diagnostic reports. Expectations, therefore, are that efforts will be made in behalf of technological restructuring.

C: With the creation of "project teams" by the Chinese in FY1983, it would seem that a connection has been established between plant diagnosis and trade talks.

The intentional technological cooperation agreement entered into with China will form the base for trade talks; I feel that this is a great improvement.

Moroguchi: In the beginning, the Chinese took a dim view of the technology cooperation agreement. But in the course of lengthy exchange of opinions and discussions, it gradually came to light that if Japan's diagnostic cooperative undertakings are conducted with top rated technologist, it stands to reason that technological information needed for a given undertaking would be forthcoming either with or without cost. Actually, improvement in productivity of a plant is not something that will be completed in a matter of 1 or 2 years, but because it may take 5 to 10 years, the interim could become a very important period for promotion of trade negotiations. These arguments so favorable impressed the Chinese that in the final phase they were the ones who were arguing for concluding the agreement.

However, the Chinese were adamantly in favor of compiling estimates which created situations incompatible with our intentions. But in FY1983, with Japanese industries' cooperations being generously proffered, conditions are right for making a real try.

B: This is the heart of the matter: In the operational phase, the diagnostic findings should establish the priority order; I believe that this reflects the thinking of the economic committee. However, there is some elasticity in its use by the technology corporation whose specialty is purchasing. From its viewpoint, it doesn't seem equitable to have higher prices pressed on it just because an item is placed in a preferred category after it was given only a few days of diagnostic looksee. It has stubbornly stuck to the principle of buying the one that is offered at the best price when there are two or more items in the same category. This thinking is justifiable. So this is one basis and acceptance of the diagnostic procedure is another.

A: When one places himself in the technology corporation's position, its view is understandable. Cooperative undertakings resulting from diagnostics are undoubtedly good. But if there is hesitation because there may be something else that's also good and if that something else is tracked down, we're back to ordinary trading practices, aren't we?

B: That is so. Supposing there was a diagnosed firm, X Co, that had been awarded a preferred status after which Y Co is asked to submit estimates, too. Knowing that it was being entered only for show, Y Co would flatly refuse.

Now, when we look at an enterprise which has undergone diagnosis, we see that three technicians were sent to a plant where they spent a week studying the various aspects of the business. No compensation was paid but costs were incurred and it is only natural that such inspection expenses would be added to the price.

Ideally, there would be a neutral diagnostic system and competitive bidding based on its findings and specifications. Although that would be the most desirable system, it cannot be achieved so the best compromise has to be reached.

#### Priority Based on Diagnosed Cooperative Undertakings of Much Importance to Japan

A: If this cooperation in technological restructuring is to be built on a foundation of mutual friendship, the Chinese must be prepared to come down a little. Now it would be fine if their attitude was to the effect that "we won't quibble about too many things, but please be guided by your conscience." After all, to cooperate in restructuring enterprises has to be accomplished on a friendly basis; if there is a constant stream of critical instructions on what is to be done, the cooperator in the undertaking could get fed up.

In the matter of doing things on a preferential basis, when it is not put on that basis, credibility gaps could arise and it is not inconceivable that technological restructuring cooperation in Chinese undertakings would come to a halt. The important thing is that China gain expertise as soon as possible. I believe that it already has some. But it must quickly build this capability to a prestigious level. It must get to a point where it can authoritatively state that the restructuring of a given enterprise should be into such and such a form, that the technology employed is good, that such and such should be designated as the maker. China must be able to assume the role of consultant itself, and make decisions and judgments in a snappy and authoritative manner. When it reaches that point, all its worries will become things of the past.

D: With regard to that point, it may be that creating project teams is taking a forward step in the problem but when it gets down to practical and actual trade talks, even the economic commission can't do anything about it. The technology corporation is the one which is at the forefront so naturally things must progress at the pace it sets. So a shape may have been given to the project but many difficult problems will still have to be resolved.

But it is a shape that was molded through discussions between the Japan China Economic Association and the Chinese authorities; the fact that the preferential treatment concept has been viewed favorable and since definitive responses probably will not be forthcoming until several cases have been tried, we can only wait for responses in optimistic expectation.

Moroguchi: Japanese society is based on free competition. But on returning and setting up a debriefing conference, I found that this doctrine is practiced by only the superenterprises. To my knowledge, of 40 firms which were gathered together, only one practiced it while the remainder all favored giving preference to cooperative undertakings based on diagnostic findings.



In any event, the 40 cases which are on the agenda for FY1983 may be increased by several more according to (Ma Yi) who came to Japan to participate in high level Ministry of International Trade and Industry /MITI/ administrative conference. By following the procedures described, I believe that numerous problems will arise and to correct and improve on them will probably require that this technological restructuring corporation will extend through 1984, 85, and even beyond 1990. We would like to hold discussions at the beginning of each fiscal year and systematically dispose of the problems.

B: This is a question. Supposing there is a plant which is suitable for technological restructuring and suppose that two or three technically competent groups show interest in undertaking it; how is that kind of situation resolved? Each would probably draw up technological cooperation agreement papers in the manner described earlier, and enter into competition, wouldn't they? There is a basic menu. The three would submit three plants though each would undoubtedly accept some modifications. So after the three groups enter into three provisional agreements, the only item having flexibility would be cost, which undoubtedly would be very pleasing to the Chinese.

Moroguchi: In a situation like that, in accordance with a promise we made, the Chinese would have the right to make a selection.

C: Does that mean that only one firm would be selected?

Moroguchi: Under such circumstances, only one firm, selected by the Chinese, will participate in the diagnosed cooperative enterprise. If, for example, there are three firms which want to participate, the Chinese will make a tour of inspection of all three and select one. The Chinese view a "sister plant" relationship as being limited to one sister. Of course, this does not apply to subsidiaries.

#### Offer Prices High in Diagnosed Cooperative Enterprises

C: A little earlier, reference was made to the high cost of the offers in cooperative enterprises which had undergone diagnostics. It is understandable that this is due to the addition of the cost of the diagnostics. But there may be another explanation. Practically all of the candidates for cooperative undertakings to be diagnosed are big enterprises; a majority of the actual machinery and instruments to be used may be products of medium to small plants that are passed on to the big enterprises and under such circumstances something akin to a "control fee" would be charged by the big firm and it would become an add-on to the cost. So, naturally the price would be higher than it would be if the Chinese were to deal directly with the machinery maker. However, this cannot account for the Chinese claim of price increases of two and three fold. I feel that such a discrepancy is due to discrepancies in specifications of the machinery.

There has been another unresolved problem. A diagnosis is made and submitted on an enterprise and based on it a show of interest is expressed. Unfortunately, the early supply stipulations are quite broad. An offer is made on those terms but as the trade negotiations progress, the amounts involved are steadily whittled down until finally one gets the feeling that he has been doublecrossed in his original expectations.



These have been some of the problem areas.

Moroguchi: I believe that there has been considerable improvement in those areas starting with the current round. I believe that if the technological restructuring plan under consideration is "preliminary in nature," Japanese exports should make a cursory examination including cost estimation. If there is to be a followup and a realistically revised plan for a technological restructuring is considered feasible, it should be drawn up jointly by Japan and China.

The administrative procedures for the technological restructuring cooperation cannot be equated to those for the international cooperation administration. The current system was made applicable only with a plan drawn up by the Nitchu Keizai Kyokai [Japan China Economic Association] and the National Economic Commission Technology Restructuring Bureau. Chinese enterprises are selected in the following way.

The majority are located in cities in coastal provinces. The district economic committees ask for plans to be submitted from those under their jurisdiction for plant restructuring. After making an estimate of the number who desire restructuring, the economic commission holds discussions with bureaus under whose responsibility a given applicant's type of plant falls and with the district government, writes up a report and submits it to Beijing. The National Economic Committee Technologic Restructuring Bureau classifies the applications by type of plant and discusses the matter with the industrial section concerned. The Foreign Economic Trade Ministry also participates. The National Planning Commission also participates. Those that involve large sums of money--proposals which involve over 100 million yuan. In those which involve less than that amount, the economic commission assumes the responsibility and draws up a list of plants. Therefore, there is no chance that it will duplicate the list of plants drawn up by National Economic Commission.

Additionally, there are proposals which are handled independently on a decentralized basis by provinces and municipalities. Although the Chinese did not say so specifically, these are limited to those involving little money. Although those technological restructuring costs which are small can be handled by the districts alone, those which involve 100 million to 50 million yuan are concentrated in the National Economic Commission. When it is not definitely known whether or not a proposal with local origin has official approval, it is requested that inquiries be directed to the National Economic Commission Technologic Restructuring Bureau.

#### Chinese Creating Atmosphere to Facilitate Cooperation

C: It is a fact that there has been a considerable clearing of the air.

D: Actually, we will not know what influence the agreement has until a plan is drawn up and is implemented.

If, as in the past, big plants are involved, reduction in prices can be made on a calculated assumption that there will be repeat business. However, in the face of Chinese claims that the medium to small enterprises involved are unable to pay, there is a possibility of the deal being only a one time thing lacking

any permanency when the partner is one of those medium to small enterprises. That, then, becomes a point to be considered in doing business.

The Chinese stubbornly insist on a 30 to 40 percent reduction. This is a Chinese manner of doing business and all firms must preconsider that factor. To explain this to each maker individually is a difficult undertaking; there are other facets which test Chinese credibility. It will take a great effort to wipe away all of these ingrained trade practices and start up under fresh procedural methodology.

C: We can see China's claim that it cannot make a decision until a comparison is made by applying its estimating formula. However, as a practical matter, the selection of software first and, after choosing a cooperative enterprise, making comparisons of hardware seems somewhat /incongruous/. The hardware is software-related hardware so after a plant is selected, wouldn't it be possible to determine the plant's profitability potential, the cost of the product, its quality and the actual cost at which it can be fabricated?

A: In Japan the place that makes machinery and that which makes it operate are not the same. Plant diagnosis is accomplished on the machinery operating site. Although the diagnosis is performed without charge, compensation could be received when the machinery is sold. But difficulties can arise because the place which makes and sells the machine is not the place at which diagnosis is made.

In any event, if it is decided that there will be technological restructuring, it should be undertaken aggressively; things that have to be bought should be bought and paid for in cash. As to what items should be purchased, research should be undertaken by oneself leaving no room for trying to lower the price on the grounds that advice had to be sought of a third party. Such tactics could lead to no one being willing to cooperate.

Moroguchi: The Vice Chairman of the National Economic Commission Zhu Rongji, who is also the person responsible for technologic restructuring, represented China on an overall basis. At the current stage, the most important thing is to create a good technologically restructural model between Japan and China. Toward that end maximum efforts will be made by China, too, so though unlike a new plant, technologic restructuring is a small undertaking and because it is complex the conditions involved do not make them particularly desirable as cooperative ventures. But they are points of policy with China and because there are many cases involved and because it is an industry that will increase from here on out, it is requested that with the long term in mind, as much cooperation as possible be extended. In response to this strong overture, I said that in the future through the mutual efforts of Japan and China, a large number of actual examples of joint undertakings will be activated. I expressed my strong desire that development and growth of this industry be given high priority and requested Chinese understanding and the expenditure of as much effort as possible in bringing it about.

Adding one more thing, an authoritative personage of the Technology Corporation who recently came to Japan, made the following comment with reference to giving

preferential status to the diagnostic cooperation industry in trade negotiations phase: The Technology Corporation seems to be of the opinion that its thinking should be along those lines too. It is my opinion that this is another way of China telling Japan that it is serious about requesting cooperation in restructuring the technology of industries already in operation.

#### List of Plants With Technological Restructuring Potentials in FY1983

/The key to the following proforma tabulation is as follows: a) name of plant b) location c) founded d) structural area in square meters e) number of workers f) principle products and annual production volume g) scope of diagnosis requested and goal of technologic restructuring./

1. a) Shuguang Electron Tube Factory b) Changsha, Hunan c) 1955 d) 130,000 e) 4,068 f) receiver amplifying tube, 4 million; medium to small rated radiation tubes, 77,000; tungsten, molybden filament/stem; durimet fluid crystal indicator; digital discharge tube g) (1) importing of principle technology, equipment, and measuring devices for manufacturing liquid crystal indicator parts (2) manufacturing of thin plate glass, technology and equipment in its formation molds, protection, conduction, and insulation process (3) production technique for parts for sukyu aligned fluid crystal indicator.

2. a) Shanghai Camera Factory b) Shanghai c) 1978 d) 130,000 e) 4,100 f) camera, 300,000 g) (1) aluminum die casting, molding and acquisition of processing equipment (2) precision plastic; optic plastic production; technology and acquisition of equipment (3) acquisition of technology and equipment for cold press metal molds and multiplex radiation metal molds (4) acquisition of optic treatment technology and equipment (5) acquisition of camera assembly line (6) improve measuring and testing devices (7) development of new type of camera (35 mm SLR/see through finder, automatic exposure and focus), light weight, small body (8) improve administrative and quality controls.

3. a) Shanghai Machine Tool and Gear Factory b) Shanghai c) 1950 d) 6,000 e) 328 f) cylindrical gears, 150,000 g) (1) Diagnostics of industrial control, product quality, treatment facilities, treatment of control gear for thermal molders, measuring tools and instruments (2) achieve annual production rate of 200,000 by 1985 with quality rating of 7 in the 150 scale for the majority and 5 to 6 for a smaller number.

4. a) Qingdao Printing Factory b) Qingdao City c) 1950 d) 20,000 e) 1,554 f) offset printing, 317.6 million copies; copper zinc color printing, 276.3 million copies; steel plate printing, 9 million copies; printed matter for documents, 145.65 million copies g) (1) electrolysis equipment, offset printers (2) planning control; quality control; improving economic factors (3) technical training; operations; improving level of operations (4) waste disposal, recycling.

5. a) Qingdao Dye Stuffs Factory b) Qindao c) 1919 d) 110,000 e) 2,635 f) dyes, 1,710 tons; pirazorozun, 80 tons; water based coloring material, 10 tons; catalysts, 309 tons; sulphuric acid, 98 tons; acetoamido, 403 tons; aniline black, oil based ink, 464 tons g) (1) acquisition of poste dying



processing technique and equipment (2) acquisition of continuous dye grinder, powdered homogenizer, mixture testing techniques (3) acquisition of technology and equipment pertaining to enriched waste oxide, contact oxidation of waste water, hidro burning (4) increasing measurements and testing toward increasing control facilities (5) improve technological level and quality controls.

6. a) Baoding Canning Factory b) Baoding, Hebei Prov c) 1955 d) 25,000 e) 856 f) canned strawberry jam, 400 tons g) (1) acquisition of advanced technology and principle equipment; quality control methodology and improved operational control methods from Japan (2) extension of seasonal production to all year production of strawberry jam (3) respond to market demand by making improvements on equipment on hand and restructuring technology.

7. a) Tianjin Porcelain Factory b) Tianjin c) 1945 d) 32,000 e) 1,327 f) porcelain coated articles, wash basins, 3.64 million; pots, 4.18 million; high grade skillets, 330,000; other items, 12.64 million g) (1) acquire heavy oil continuous glazing kiln and effect low heat multilayer slow coating technique (2) effect improvements in outward appearance and physical and chemical properties of porcelain items (3) lower dependence on labor (4) improve controls of overall technology, quality and operation.

8. a) Shanghai Textile Mill (b) Shanghai c) 1977 d) 4,000 e) 247 f) mesh cloth, 6,000,000 m<sup>2</sup>; plain carpet, 30,000 m<sup>2</sup>; machine woven carpet, 500 m<sup>2</sup> g) (1) acquisition of double doublerib width textile machine; improve productivity of patterned carpet (2) restructure and adjust presently owned plants to increase output of both plain and patterned carpets (3) improve quality and increase types of product (4) disposition of dye waste water (5) improve technology and operation controls.

9. a) Shanghai Rectifier Factory b) Shanghai c) 1977 d) 50,000 e) 2,579 f) silicon single crystals, 2 tons; main frame of silicon rectifier, 340,000; optics, 300,000; mainframe of governable silicon rectifiers, 160,000; MOS integrated circuit, 200,000; electric powered electronic plant equipment, 3,500 g) (1) develop governable silicon mainframe, high performance transistors, and various types of governable silicon parts and set 500,000 as annual production quota; increase acceptance rate and achieve IEC standard (2) produce 6 tons of single silicon crystals annually and achieve IEC standard (3) produce 2 million optic parts per annum and up the acceptance rate to achieve internationally advanced standard (4) produce 7,000 electric powered electronic plants of 150,000 kW per annum (5) modernize old facilities and archaic precision standards and restructure measuring and production control methods.

10. a) Shijiazhuang Artificial Board Factory b) Shijiazhuang, Hebei Province c) 1959 d) 17,000 e) 798 f) plywood board, 3,200 m<sup>2</sup>; fiber board, 4,800 tons; furniture, 70,000 items g) (1) improve plywood production control technique, secondary processing technique; acquire necessary equipment and improve rate of utilization of lumber, grade level, labor performance rate (2) acquire fiber board equipment and technology and produce new items (3) acquire furniture making technology and equipment as a means of breaking into the world furniture market and simultaneously promote the overall utilization rate of lumber.



11. a) Shijiazhuang No 1 Pharmaceutical Factory b) Shijiazhuang, Hebei province c) 1938 d) 70,000 m<sup>2</sup> e) 1940 f) Caffeine, 180 tons; ethel ether for anesthetics, 50 tons; tea base, 60 tons; aminophilene, 20 tons; antiphlogistic agent, 30 tons; vitamin C, 420 tons; cocaine, 20 tons; pills, 1.5 billion; injection drugs, 70 million tubes g) (1) conduct diagnostics of pharmaceutical factory of main plant (2) increase types of new drugs; improve quality, packaging and site environment (3) acquire drug manufacturing facilities, particularly ventilation system, microfilters, measuring device for automatic photo rate of transparency, continuously operating irrigatant sealer, multilayered presurizer, odd shaped pill maker, one step pill manufacturing device (4) acquisition of film coating material or technique which will accomplish similar result (5) improve technologic, quality, and operational controls.

12. a) Hangzhou Electric Fan Factory b) Hangzhou, Zhejiang province c) 1965 d) 15,000 m<sup>2</sup> e) 981 f) Various types of electric fans, 150,000 g) (1) production of fins; automation of inspection (2) automation of cover net production (includes introduction of material, shaping, welding, and coating) (3) improve assembly flow operation (4) remodel attachment add-on facilities and improve precision work on add-ons (5) improvements in technology, operational control and production performance.

13. a) Hefei Monosodium Glutamate Factory b) Hefei, Anhui province c) 1957 d) 6,000 e) 174 f) glutamate soda, 250 tons; diastasic enzyme, 150 tons g) (1) acquisition of Kangshi bacteria colony and bacteria with high acid properties (2) acquisition of air purification technology and equipment (3) fermentation control technology and management technology (4) glutamate extraction technology (5) improve quality and management control.

14. a) Jinan No 1 Machine Tool Factory b) Jinan, Shandong province c) 1949 d) 160,000 e) 3,849 f) ordinary lathe, 2,037; high speed, precision lathe, 223; precision lathe, 1,442 g) (1) acquisition of technological reference material on test counter lathe and super precision lathe on manufacturing technique, diagrams, and sample machines (2) acquisition of resin dust technology, equipment, measuring devices; restructure building to enable resin dust molding process (including technological reference material, samples and actual training) (3) restructure smelting process (raise technological level and furnace temperature) (4) acquisition of small items diecasting production line (5) diagnostics of extent of machine treatment and renewal of facilities, gear noise control in hard gear surface precision treatment, resolve friction erosion of sliding slot, site inspection of high precision parts (6) improvements in technologic and production control levels.

15. a) Jinan Yuxing Chemical Factory b) Jinan, Shandong province c) 1919 d) 76,000 e) 1946 f) Dichromate sodium, 4,575 tons; titanium white powder, 1,682 tons; anhydrous chromic acid, 2,218 tons; sulphuric acid 32,554 tons; dichromate calcium, 500 tons; calcium phosphate 53,826 tons g) (1) acquisition of technology for manufacturing titanium white powder for paper making (2) acquisition of anatze-type titan white powder and technology and equipment for airflow crushing (3) acquisition of titan white powder measuring instruments (4) restructuring of chromium oxide desalinization process (5) acquisition of technology for the general utilization of residue from chromium oxide desalinization (6) improve technological and production control levels.

16. a) Nanchang Daily Needs Factory b) Nanchang, Jiangxi province c) 1965 d) 10,000 e) 396 f) toothpaste, 14.04 million tubes; cosmetics, 52 tons; shoe polish, 3,365 million tubes; food flavoring, 10 tons g) (1) acquisition of production technology and analysis method of turpentinic alcohol (2) acquisition of technology to extract and combine scents from turpentine (3) acquisition of advanced compounding of flavorings and scents (for food, alcoholic beverages, tobacco, soap, cosmetics) (4) improve operational control, increase types of items, energy savings.

17. a) Jiujiang Knitted Underwear Factory b) Nanchang, Jiangxi province c) 1951 d) 28,000 e) 1,229 f) athletic shirts, 2.47 million; acrylic vests, 691,000; acrylic pants liner, 884,000; thin acrylic pants liner, 819,000; underpants, 486,000 g) equipment and technology for diagnostics and renewals of dyeing and post disposition (driers, printer machines, pattern inserter; pattern coordinating machine, cotton and wool small cylinder knitting machines) (2) technology, quality, and operational controls.

18. a) Zhuzhou Plastic Factory b) Zhuzhou, Hunan province c) 1958 d) 42,000 e) 883 f) rolled film, 933 tons; hard board, 2,142 tons; hard tubing, 454 tons; cable material, 3,084 tons; PE blown film, 547 tons; treated plastic (teflon, etc.), 3.5 tons g) (1) for the purpose of improving quality of flatware, tubing and film, renew technology and facility to achieve advanced nations' level (2) develop new articles (3) improve overall profitability and operational control of enterprise.

19. a) Shaoyang Canning Factory b) Shaoyang, Hunan province c) 1958 d) 7,000 e) 620 f) mushrooms, 1,700 tons; tangerines, 1,500 tons; bamboo shoots, 1,500 tons g) (1) technology and equipment for canning tangerines (especially peeling machinery and section separators) (2) juice packing production line (3) entire set of empty can making combine (4) 2 units of vacuum packagers for foodstuff (5) improve quality and enable increased variety of foodstuff treatment processors (6) thermometers to measure temperature at center of can (7) improve technological and operational controls.

20. a) Dalian No 2 Electric Factory b) Dalian, Liaoning province c) 1958 d) 7,000 e) 1,400 f) 110,000 kW motors for cranes, 40 kW other use motors, washing machine motors, 60,000 units g) (1) improve level of management control (2) acquisition of additional treatment methods, environment measuring technique, and equipment pertaining to production technology of nonsynchronous motors (including foundation parts casting, precision cast steel, aluminum cast rotor, press technique, technology pertaining to coating for winding wire for rotor, and metal molding technique).

21. a) Shenyang No 1 Printery b) Shenyang, Liaoning province c) 1938 d) 12,000 e) 1,139 f) 4 million yards of printed material of which periodicals and text books, 60 percent; wrapping and decorative materials, 25 percent; others 25 percent /sic/ g) abandon molten lead operation and replace with 2 rows of cold assembly printing line (1) offset printing: resolve problem of selecting principle press (2) relief printing: resolve problem of quality of light sensitive resin printing (3) improve technology and management controls.

22. a) Acheng Sugar Factory b) Acheng, Heilongjiang province c) 1908 d) 90,000 e) 1,370 f) pure white sugar, 40,000 tons; alcohol, 4,000 tons g) (1) acquisition of energy saving, high efficiency production technology and equipment (2) acquire necessary control equipment and measuring devices to enable main functions to be governed automatically (3) raise technology and production control levels.

23. a) Heilongchaig Province Wireless Factory No 1 b) Harbin, Heilongchiang province c) 1966 d) 14,000 e) 800 f) Radio, 200,000; tape recorder, 230,000 g) enlarge metal form shop, acquisition of advanced technology and equipment for metal form treatment and finishing process (2) restructure and acquire advanced technology and equipment for blowing on plastic process (3) acquisition of tone measuring device for hi fi stereo systems (4) raise level of technology and production control.

24. a) Shashi Adhesive bonded Carpet Factory b) Shashi, Hubei province c) 1977 d) 15,000 e) 283 f) wool nonwoven patterned carpet, 250,000 m<sup>2</sup> g) (1) improve manufacturing structure and increase resiliency of carpet and acquire low layer continuous foaming equipment (2) improve quality, resolve wool ball production process and adhesive material problems (3) use flame resistant, low temperature adhesive material in acrylic carpet (4) improve technology and production control.

25. a) Shanghai Ink Factory b) Shanghai c) 1925 d) 9,500 e) 330 f) black oily ink for ballpoint pen, 10 tons g) (1) Composition, raw materials and production process of black oily ink for ballpoint pens (2) test measuring black oily ballpoint ink, method and equipment of making high speed test measurements (particularly making test measurements for long term stability) (3) overall technology, quality and management control.

26. a) Shanghai Magnetic Tape Factory b) Shanghai c) 1965 d) 15,000 e) 520 f) cassette tape, 4.5 million g) (1) production technology and equipment for cassette tape, broadcast recording tape, video cassette tape; production technology and equipment for high performance, high density, low static magnetic powder (2) technology and equipment for magnetic pulp production (3) tape production line technology (4) improvement in technology and production control.

27. a) Tangshan High Tension Insulator Factory b) Tangshan, Hobei province c) 1952 d) 25,000 e) 816 f) high tension insulators, 2,000 tons; lighting arresters 20,000; low tension insulators, 600 tons; outdoor rod shaped supporting insulators, 6,000 g) (1) acquire pressure forming technology and equipment and shorten the production cycle and achieve higher acceptance rate (2) acquire 62 grade semiautomatic raw material fabricator for rod shaped production line, 62 grade glazing sanding machine; acquire automated line to raise efficiency and acceptance rate (3) acquire zinc oxide lightning arrester production line; acquire technology and equipment to manufacture nonlinear zinc resistors (4) improve measuring procedures to strengthen process governing system (5) improve technology quality, and management controls.

28. a) Wuhan Oil Ink Factory b) Wuhan, Hubei province c) 1978 d) 6,000 e) 297 f) offset oily ink, 570 tons; soft tube oily ink, 56 tons; resinous



intaglio oilbase ink, 66 tons g) (1) improve quality of intaglio oilbase ink; fabricate items suitable for use in resinous film and to improve its strength, luster, and stability acquire necessary equipment and technology (2) improve controls, correct imbalances in work process flow, increase stain prevention facilities, raise work level and quality of goods manufactured (3) set annual production of resinous oily ink to 1,500 tons.

(note) The above list are those which were not assigned to Japan of the 40 enterprises which were submitted by China National Economic Commission; No 24 to No 28 were designated but were not confirmed.

#### Ways to Establish Joint Ventures

Tokyo NITCHU KEIZAI KYOKAI KAIHO in Japanese Jul 83 pp 16-22

/Text/ After China's joint venture act was enacted in August 1979, the promotion of joint ventures between Japan and China had become a big undertaking of the Nitchu Keizai Kyokai /Japan China Economic Association/. When the Association's delegation visited China, Chairman Matsuo of Marubeni made several requests while in Beijing on matters concerning environmental conditions and other matters with important pertinence to promoting joint ventures. However, today, five joint ventures between Japan and China have been set up. They are Fukujitsu Television, Otsuka Pharmaceuticals, Orientrics, Rikio Tabi, and the cashmere plant at Tianshan. Currently, China has a total of 78 joint ventures with foreign countries of which 30 are in special economic sector and of the remaining 48, only a miniscule 5 joint ventures have been entered into between Japan and China. The Chinese say that this number is far from overly large and requests that we get behind a promotional effort.

#### Establish Promotion Team

On the occasion of a delegation of the Japan-China Economic Association's visit to China in September of last year, Chairman Matsuo of Marubeni, representing the Association stated in Beijing that there wouldn't be much point in talking in generalities. He then proposed that teams to promote joint ventures between Japan and China be created to definitively discuss and promote them. He had two purposes in mind: one was to assure that the five joint ventures currently in existence develop smoothly; the other was to put the several projects which are under study but are unapproved as yet on track by resolving problems common to all.

This was loudly evaluated by the chief of the Foreign Economic Trade Department Chen Muhua, who has followed the matter in practical contacts through Foreign Economic Trade Department Foreign Currency Control Bureau and the Japan China Economic Association.

#### First Japan-China Joint Venture Promotion Conference

The steps described above resulted in the first Japan-China Joint Venture Promotion Conference being convened in Beijing in mid-March of this year.



The Chinese delegation was headed by Zheng Hongye (deputy director of China International Trade Promotion Commission) with Fengtianshun (former Foreign Exchange Control Bureau Chief, currently Foreign Economic Trade Ministry Foreign Exchange Control Bureau Counsel) and Lu Jiang (National Economic Commission Technologic Restructuring Bureau's deputy director) as his deputy directors. Other members of the delegation included officials of the finance ministry, China International Trust and Investment Corporation, and the Bank of China.

The Japanese delegation was headed by Yaeishi Watanabe (former director of the Japan-China Economic Association; currently legal advisor of that association) with officials of Marubeni and C Itoh from the traders and Hitachi, Ltd representing makers. The discussions were also attended by administration personnel from the association.

Point 1 in the joint venture promotion is in the concept of a joint undertaking. Japan's concept is that it is a profit sharing body. China views it as a means of promoting exports, obtaining foreign exchange, a medium to learn industrial administration and production technology and other matters needed to build up China's economy. The Japanese suggested that there seemed to be a discrepancy in the basic purpose of cooperation.

Practically speaking, even having implemented a joint venture act, other factors, such as implementation regulations, have not been activated. Real estate costs, labor costs, method of delivering foreign exchange, securing of raw materials, tax, export commitments are all problems that have to be faced or resolved.

#### Promulgation of Rules Governing Activation of Joint Venture

The following is a briefing on recent developments and situation. I arrived in Beijing on 7 May. Apparently, the National Foreign Exchange Utilization Conference was in session at that time in Beijing's People's Cultural Hall. I received this advice from deputy team chief Feng Tianshun.

Implementation regulations of joint enterprises were being tested at this National Foreign Exchange Utilization Conference. Up to that time no particular problems arose and no dissenting opinions had been expressed. So, I was told, as soon as that session was concluded, approval would be granted and the rules would be publicly promulgated. During the discussion in March of this year, we were advised that estimates were that promulgation could be expected in a month or two, that is in about May so this meant that there would be a little delay.

When practical application of the regulations are implemented, the concept of joint undertakings which is an item under the Chinese Government's utilization of foreign exchange, will be clarified. When the implementation orders are promulgated, the laws and their applications will be explained at briefing sessions to be conducted by the Chinese in Tokyo and Osaka in accordance with an agreement reached after discussions. These briefings will be a forum for questions and exchange of opinions.

## Export Commitments

When Deputy Prime Minister Yao Yilin visited Japan in April and stated in reference to the matter of exporting commitment, that exporting would not necessarily be enforced because acquisition of foreign exchange has increased. Insufficient foreign exchange would be covered by the Bank of China. According to advice from the Chinese in Beijing, the export rate of UK's plate glass and American Motor's Jeeps was at about 20 percent with the remaining 80 percent retained for domestic consumption made necessary for China's economic buildup. Foreign exchange deficits incurred in such transactions are covered by the Bank of China, he explained.

## Concerning Patent Laws

It is explained that the patent law was enacted to effect a smooth induction of the west's high technology. It was reported that the measure would be adopted and promulgated at the People's Congress. We were advised that other legal measures pertaining to companies and joint ventures are being drawn up. For example, considerations are being given to laws governing China and foreign jointly financed and operated enterprises, laws governing foreign economic trade contracting, laws governing financial controls for joint ventures, and agreements between Japan and China for the protection of jointly made investments. A strong desire was also expressed to enter into an agreement precluding double taxation. The above items were all brought up by Deputy Premier Yao Yilin which leaves the impression that China is gradually moving into a "joint venture environment" and that although still in the early stages that Japan-China joint ventures are beginning to make waves in the economic sector.

## Minimal Japan-China Joint Ventures

One frequently hears the Chinese lament that although Japan and China are neighbor nations which have deep historical and geographic relations, there are only five joint ventures between them. Of course, the number doesn't tell the whole story but in any event, it certainly is not overly large. State affairs committeeman Tanimaki frequently wonders out loud whether Japan's economic sector is too conservative. Whether so or not, we would like to hear your opinions on the entire matter.

## Anonymous Panel Discussion No 2

### Basic Concept for Establishment of Japan China Joint Venture

A: I believe that joint ventures manifest the most intimate relations of all of the connections between Japan and China. Trade volume between Japan and China is large and there is friendly cooperation. But does the fact that joint ventures are few indicate that the relationship between Japan and China lacks the needed deep intimacy? I believe it does. That which is there is a relationship standing on profit and loss calculations. It is often said that Japan-China relations are at a fever pitch or are cold; is this because the relationship has not been clearly defined, that the definitions lack crispness?

China decided to open its doors and attract foreign currency. There have been various occurrences and developments in post revolution China, but this undoubtedly is biggest upheaval. The induction of foreign exchange was something beyond the scope of imagination in China's recent history. Why was this giant step taken? I believe that it was taken to satisfy its ambitions to modernize.

I believe that tying capital into capital manifests friendly relations several grades closer than that developed by merely dealing in merchandise. The fact that there is not too much of that kind of connection would seem to indicate that the Sino Japanese relation has not developed to that extent. I believe that some deep thinking is needed here. As long as joint venturing does not flourish, it is difficult to define Sino-Japanese relations as one of friendliness.

C: There are big discrepancies in the respective country's basic concept of joint venture. Finding a point of commonality is necessary. In general Japanese enterprise feels uneasy about the basic difference in posture. Change has been violent in China during the past few years. There is even concern that its basic policy direction has not been stabilized.

As a rule, in Japan, industrial decisions originate as informal ideas from lower ranks and gradually progress upward until it is finally taken up by officials having cognizance and decided by consensus. This is a slow process and one in which the making of judgments is very difficult. This is what makes it overly conservative. The process is not conducive to finding enough material with which to draw up a comprehensive plan of undertakings; there are too many indefinite factors involved.

Whether the partner is Chinese or European, a person like Chairman Hammer /Armand Hammer of Occidental Petroleum/ can make decisions singlehandedly. In Japan, circumstances make it exceedingly difficult to reach industrial decisions.

A: Chinese thinking as it pertains to joint ventures differs from that of the Japanese. China is too heavily oriented toward the real profit factor. It could be said that the acquisition of capital, management, and purchase of technology is nothing more than an extension of ordinary contracts. But, standing at the point I described earlier, isn't the fact that of the joint ventures that China has entered into, Japan is a partner in only 3 while the United States is involved in 10 a major point? While it is said that Japan is friendly with China, isn't the relation based only on a profit and loss basis? One is lead to believe that Japan is not positioned to participate in the modernization of China. That being the case, I believe it would be best for Japan to go all out in cooperating with them in the production of new items.

China is in the process of opening up its markets. This is a very important development and we cannot afford to miss riding that wave. The United States is moving.

#### Positive Approach by United States Enterprises

Moroguchi: It is certain that when it comes to something like developing resources, the United States is..., well, let's say that their endeavors are on

a different scale. Japan's undertakings, at least up to now, have placed primary emphasis on the safety factor and therefore spend considerable time in the preparatory phase. The Chinese have displayed considerable understanding with regard to this, but it is certain that they have expectations of getting on with things as soon as possible. In that vein, I feel that it is of utmost importance that we relate positively with them.

B: There are a total of 78 joint ventures entered into by China of which 30 are in economic special sector. I went to Shen Quan to take a look and found that most involved real estate and none were in the manufacturing industry. There were others but most involved overseas Chinese in Singapore, overseas Chinese in America, and other "overseas Chinese." These are different in nature or in circumstances from Japan's undertakings and therefore depending on numbers only is misleading.

Moreover, even in the numbers, there are few that programmed from beginning to end smoothly; most had to stop and change course midway.

As to why so few joint ventures, compared to the United States, Japanese industry has been involved in China for 20, 30 years. During this time, it has had to twist and turn but it has paid off in experience and made us quite familiar with the environment. We, therefore, have come to know when to apply the brakes and even to cleanly withdraw if need be. The Americans, however, proceed at full speed and find themselves cracking up en route. Great Wall Restaurant is an example.

The Chinese officials complain about the dearth of Japanese joint efforts but there are good reasons for that and it is because we have had many kinds of experience that the number is small.

Moroguchi: Take Occidental Petroleum's joint development of Pingshuo coal mines in Shanxi province. Occidental had failed in an attempt to sell coal to Japan. It had other means of financing and my understanding is that the deal was reopened with the Chinese Government. In other words, Pingshuo will be cooperatively developed. But, in the event that the mined coal cannot be sold, how is profit going to be guaranteed? The Chinese Government wanted a showpiece of Sino-U.S. natural resources development project so it agreed to guarantee the disposition of the coal of one and for the other part the Import Export Corporation agreed to be held responsible for all of the profit instead of only a portion as in the original agreement. Therefore, although Occidental won't taste any real sweetness since the Chinese Government guaranteed the undertaking, it took on the deal. The way I see this case, American enterprise was exhibited to the fullest and in the final analysis I believe that the Chinese Government got taken in. At least, things seem to be proceeding in that manner.

What I would like to say is that Japanese enterprise should open up a bit, aggressively pursue matters even to the point of taking in the Chinese Government a little.

A: America seems to be making a strategic approach. That's why it is coming forward. Just as Japan says that Chinese market is becoming the biggest market



after the United States, the United States has indicated that it has its eye on the Chinese market. I think it is safe to say that both America and Europe are searching out points of major importance and preparing to apply pressure.

#### Discrepancy in Venture Concepts Between Japan and China is Obstar

D: There seems to be some little discrepancy in joint ventures between China and Japan. We think of it in terms of mutual profit while the Chinese think of it in terms of being a means of modernization. Both sides, taking overly simplified views, assumed that as long as a joint venture act is legislated, basic concepts would be of little concern. This was a fundamental defect.

Although I am sure that Japan and China are currently enjoying good and close relations in all aspects, the discrepancy in concepts became apparent and we do not think that there is any quick solution at this point.

I feel that this is a very important time for the Chinese; emphasis in joint efforts should be placed on type and quality rather than on quantity. But immediately on enactment of the joint venture act, applications poured in from both the center and localities in helter skelter fashion. There are indications that attempts are being made to proceed without first making proper selection. This is a source of concern and even of fear to me.

In China from now on, I think that there may be considerable growth in the third phase industrial development. Food and health acts and other legal measures will probably be enacted and currently we still have the inflation problem which will affect land and building values and the cost of gas and over and underground water. In the face of all of these unstable factors it seems impractical to press on with the discussion even if a step is conceded in the concept of cooperation for mutual profit.

Referring to the above mentioned "overseas Chinese" in Southeast Asia and America involved in special economic sector project, the same is applicable to them as to Japanese enterprise. Well known overseas enterprises which entered into joint ventures for the purpose of effective publicity, have found themselves in some instances in difficulties.

For example, we hear that world famous French enterprise recently entered into joint venture contract in the third phase industrial sector. The French enterprise's contribution of several million dollars was matched by the Chinese with land and buildings, presenting an outward appearance of a 50-50 venture. We understand that in reality, from the standpoint of cooperative profit, it was a long way from expectations. We harbor some fears that this type of unexpected definition that the Chinese apply to joint venture will adversely affect future joint ventures with Japan.

B: To the Japanese industrialist, a joint venture implied that there will be an undertaking at some different place. Ventures are things of risk but they are also things that dreams are made of. Of a certain joint enterprise with Japan, the Chinese say that since a profit is being realized, it should be satisfactory. I don't know what the rate of this profit is but if the Chinese

viewpoint is that if it amounts to a return equivalent to the normal rate of interest on principle, it is satisfactory. The entrepreneur's dream is the potential to grow and expand if all goes well. But under present circumspection, such a dream can't be realized.

If the Chinese thinking were to be accepted, all we need do would be to advance it the capital and infuse some technical expertise into the project. Maybe that would make the Chinese happy but it would not fulfill the dream of a venture.

The following may be slightly off the subject but there was an instance where canceling a plant came up for discussion. On that occasion, the Technology Corporation said, in effect, "You are saying various things but the fact is that products belonging to you have been loaded onto ships and you have received your payment; so why aren't you satisfied?" To us, the mere turning over of the plant and receiving payment for it is not sufficiently satisfying; we feel satisfaction only when we are assured that the plant that was turned over is working smoothly and turning out good products.

Equating this to joint ventures, it would be: the money has been put up; the personnel has been supplied; regardless how the plant operates, there is no potential for expansion; the promised profit has been made on the capital invested, so all should be well. There is no room for a dream in doing business like that.

As was stated earlier, joint ventures are the manifestation of the most intimate relationship between Japan and China. That being so, it should be clear that strict cooperation must be exercised in establishing them.

#### China's Opening Up Market Has Major Implications

A: I feel that the opportunity presented by the market being thrown open should be aggressively seized. That another point I would like to impress on the Chinese is to give autonomy to enterprises. Joint venture laws have been enacted. Assuming that implementation regulations are promulgated; then, that which remains is for the enterprise to take on a suitable partner with flexibility and confidence and giving consideration to risk and accounts. The suitable partner may be found in Japan or elsewhere. Undoubtedly, certain ceilings and guidelines will be stipulated, but orders should not be issued on each minor condition; price should not be stipulated on each and every item; it should not be ordered that such and such a position must be assigned to a communist party member, and so on. This relaxation must be observed. Otherwise, looseness will be lacking. If cost of the product is stipulated or requested that it be such and such, since no cost calculations had been made, the issue should be concluded right then and there.

The resolution of the problem lies in which side takes the initiative. One approach is to come up with ways and means of resolving in the manner one believes it should be resolved or not to implement something if the partner doesn't implement it. I believe that coping with these two methods are completely different.

B: When I visited Beijing and happened to be talking to a certain person, I expressed the opinion that there were some types of industry that were suitable for joint venturing and some that were not. For example, when fabricating some articles, there may have to be parts supplied to it and it may have to depend on numerous parts being supplied. Receiving an adequate ration of supplies takes the matter into national planning and, consequently, the product becomes subjected to national planning. It is my opinion that such an industry is not suitable as a joint venture.

Then what is the most suitable type of industry? It boils down to something like the Jianguo restaurant which is a business that takes in money from foreigners.

Moroguchi: When Deputy Premier Jao Yilin was here on a visit in April, he made reference to business which was suited or not suited for a joint venture. In present day China, there seems to be industries which can be categorized as instructional industries, guidance oriented industries, and guidance adjustment oriented industries. Most of the joint ventures fall into the guidance or guidance adjustment type industries. So whether there be changes in national plans and as whether it is the 6.5 plan or the 7.5 plan, prearrangements will have been made to preclude any shrinkage of production or a situation in which parts cannot be provided. He said that since such safeguards will have been instituted, he hoped that we would give them wholehearted cooperation.

As you stated a while ago, if we get trapped into making do within a rigid framework, we would find ourselves trying to fly with one wing. Undoubtedly, most of us on the Japanese side are concerned that this could happen. I think that Deputy Premier Yao Yilin had that and a broad view of the future in mind when he made his comments.

D: I believe that is so.

A: In my opinion industrial types that are potentially applicable are many. First, though, we must feel confident that the political situation has stabilized and that there will be no problems in that area. This is necessary because the market must be steadily opened up so that if quality goods are made, there will be a market through which they will be consumed. As you say, it is not sufficient that there is a guarantee of profit. Profit will result from joint ventures. If items which are now being made in Japan are made in China and if when such items are sold in China they are simultaneously sold in Japan, China will become the supplying base and Japanese enterprise will be happy to come forward. If matters are allowed to maintain the status quo, Japan won't come forward. But that could result in Japan's being overwhelmed some years in the future. We will come to realize that we had missed the bus. That is why I feel that we must give this matter considerable thought now.

In the final analysis, I feel that a strategic approach must be drawn up by Japan toward the Chinese entity as a country and as a market. Currently this approach is on a micro scale and China is responding correspondingly. I feel a little hesitant to acknowledge that this is an adequate way to establish closer relations. I feel that there is a slightly more macro means of approach. This

can't be accomplished through just one industry so we should first think in terms of "Japan, Inc.," and while making progress under this umbrella, think about what form the next development should take.

I realize that I am being repetitious but China, which has a population of 1 billion, has decided to unlock its doors and assume an open posture. This is related to the creation of a 1 billion person market with which there is a potential for direct trade. Not only that, but investing in that market has been recognized. This market is continuously being opened up, which means that its value as a market is broadly and greatly increasing. It has asked the Japanese Government to cooperate and to assure the safety of individual capital investments urged that investment guaranteed agreements and treaties to prevent double taxation be entered into as soon as possible. Shouldn't we again recognize the potential importance of these developments? The same can be said for Industrial Restructuring Cooperation. These two plus joint ventures are currently the main pillars of China and if they develop favorably, normal trade will grow and relations between Japan and China will be brought ever closer.

Moroguchi: I wish to thank all of you for spending long hours in these discussions. The Japan China Economic Association will try to move along the lines you suggest and I hope that you will give your cooperation in doing so. I hope that you will continue to expend your efforts in behalf of smooth sailing for the various Japan China cooperative propositions in the future.

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## ECONOMIC

### FUTURE BUSINESS CONDITIONS SURVEYED

Tokyo DAIYAMCND0 in Japanese 23 Jul 82 pp 20-28

/Text/ Expectations for the swift recovery of business conditions have expanded. Industrial executives have become aware of subtle changes. The height of prosperity has doubtlessly passed. Bearish sentiment still lingers but the viewpoint that the Japanese economy is shifting from what can be called low instability to high stability is becoming stronger among executives.

These were the feelings expressed in a survey of the long range forecasts for the Japanese economy by 150 top executives recently queried by this magazine, 140 of which responded. Just a few of them said that the average real growth rate for the next 10 years will exceed six percent.

According to the growth rate forecast, most people, 53 percent said 3 percent and 41 percent said 4-5 percent. What is the basis for that?

Three percent growth argument: Kanamori, chairman of Mitsubishi Heavy Industries Ltd stated, "Markets in industrial nations have reached saturation point and the purchasing power of developing nations is not reliable. Therefore there is no stimulation of the demand for commodities in resolving world supply surpluses. Four percent would be good." and from Hasegawa, president of Kawasaki Heavy Industries Ltd, "The potential for growth of the Japanese economy is satisfactory but in an international environment of trade friction, that potential will not be realized. Enlargement of domestic demand can not be expected."

The three percent forecast is overwhelmingly large by heavy chemical and raw material industries. They are in the majority, respectively at 62 and 57 percent. Hasegawa's statement that, "Our manufacturing industries can not be larger," is the basis for this belief.

Four to five percent growth argument: Tsutoi, president of Mitsui Real Estate Development Co Ltd, stated, "The Japanese economy relies basically upon domestic consumption. If tertiary industries and advanced technology activities are charted, it would indicate they will not be content with three percent. But doubtlessly this will not apply to some giant

industries." Kashio, president of Casio Calculator Co Ltd, had the same concept, "Electronics pulls Japanese growth. Three percent is good for foreign growth but for Japan, four to five percent is good."

Sixty percent of the executives of advanced processing industries which emphasize microelectronics adhere to the four to five percent growth argument.

Forty four to forty five percent of the executives of non-durable consumer goods and service industries are forecasting increased growth.

Sekimoto, president of Nippon Electric Co Ltd, stated, "Put aside these figures since they are of no value. They have too much influence on the thinking of politicians and the financial world. I'd like for zero to be entered for four to five percent and that would be acceptable. The future is uncertain. We don't know whether there will be another oil shock. However, it is not good luck to consider things such as that. The problem could be not having a feeling of hope and aspirations for the future.

The four to five percent growth of the Japanese economy, as expected, has entered period of qualitative changes demonstrating a strong spirit.

Regardless of business category, it is now recognized about managing the Japanese business world that, as stated by Kamei, president of Sumitomo Electric Industries Co Ltd, "A change from quantity to quality is drastically progressing. During a period of high growth there can be no other assumption than of steel and oil expanding as they have. An innovation of excellence has quietly begun to pick up. An economic softness began to advance and the popular use of the previous economic growth argument has disappeared."

That is not a gloomy sensation. How could this situation be anticipated? One hypothesis is Kondrachev's theory of wave motion.

An example is the interpretation of Saito Seichiro, professor of Ryukyo University, "The technique of the 1973 oil shock which obstructed post-war economic growth, reached its peak as a technique begun for war. Since then, the world economy has entered the trough aspect of Kondrachev's wave motion. This wave has a trough of 25 years and a crest of 25 years with one cycle totalling 50 years. After 10 years, the trough aspect will continue for another 15 years. Innovations related to high growth have not yet blossomed. Buds have just begun to appear."

Innovation of excellence is defined as inducing new economic expansion through the mutual functioning of five elements; the realization of new systems, acquisition of sources of supplies of raw materials, cultivation of new markets, introduction of new production techniques and production of new products.

Surprisingly, 70 percent said these innovations will occur within 20 years, 43 percent within 10 years and 19 percent said it was on the point of occurring. This is considered positive and far from pessimistic. "Because of the oil shock I don't know how quickly the innovations will occur."

Professor Saito said, "Kondrachev's wave has no rules and no fatalism. The transition aspect can be made faster by the acceleration of R&D investments, organizational reforms or changes in company president. It is fair to say regarding the economic growth rate, that four percent would be good for the ten year period from now. Depending on the industry, there will be enterprises going into double digits and enterprises going bankrupt from zero growth; however, beyond that I don't know whether it will be a completely good period."

Doubtlessly the rate of technical innovations contributing to Japanese economic growth has greatly increased the likelihood of a second oil shock.

The rate increased 40 percent following the oil shock compared to about 20 percent for the previous 20 years.

Also, according to Takenaka Ichio, chairman of the National Economic Association, despite the oil shock, "During the last 10 years, from 1978 to 1980, Japan was the only advanced nation to grow. This was due to riding the swell of technical innovations of the electronics revolution; West Germany slid into zero growth because it missed this swell."

There is a viewpoint of stabilizing the fluctuation of business conditions through the lever of innovation. In addition to this, when the entire growth potential of the Japanese economy is considered, three percent growth for the next ten years seems excessively conservative. Even at four to five percent it is difficult to believe that the balance will be earned. Even though the Japanese economy is not small, a strain appears in ordinary income and expenditures when an objective of about twice the growth of any European or American country is not met. Japan must maintain over five percent growth through its macroeconomic base and that appears to be possible.

Beyond the differences between economic schools and industry, they do not deal with the actual problem of the relationship between innovation and economic growth. Mr Takenaka cynically said of economics, "Despite the contribution of innovations to almost all growth, the present techniques are not caught in the residue of eradicated labor contributions and innovations funds. This is far from economic growth theory's first tears."

Mr Takenaka on the reality of growth being lead by innovation asked "Can first tier enterprises come from any other place? Can new people suddenly appear on the scene?"

Mr Saito in what can be considered a prevalent theme, said, "As for the existing system in Japan, the 'old injury' has disappeared or existing human relations are changing."

Apparently, a new type wave motion of business conditions is approaching. That is neither inextractable low growth nor based on superiority of material resources. I don't know whether it is good to say that the advent of a highly stable economy will herald the blossoming of ingenious innovations.

This historical transition period does not mean the continuation of a stagnant economic phenomenon. Mr Saito stated, "Imbalance is a distinctive feature of the period and for that reason, can cause changes in market mechanisms and plunge the economy into Kondrachev's trough. In the field of economics the myth of Cain is disappearing. The instability of the international economic system does not mean that our new economic strength will replace Japanese-American-European and that only Japan can enjoy high growth. It is a soft service period but is without the know how to actively cope with the new economic world, people's new aspirations or way of life."

Therefore the remarkable difference in the amount of industrial expansion depending on the business category creates extreme optimism for the future of executives.

Steel, automobiles and heavy electric industries finished an era with the second oil shock and was their role replaced by precision equipment, electrical machinery, microelectronics, medical supplies and services. In response to the survey question, "Can your industry expect high growth during the next ten years?" The ratio of negative answers was, by the raw material industry 83 percent, by the heavy chemical industry, 90 percent and by social welfare, 90 percent, while conversely the advanced manufacturing industries answered affirmatively by 89 percent.

The vigor of the microelectronics industry is especially noteworthy and their executives have high expectations.

In the latest compilation of mid-range forecasts by the Japan Electric Machine Industry Association, the Japan Business Machine Industry Association and the Japan Electronic Industry Promotion Society stipulated double digit growth for the electronics industry during the next ten years. This illustrates the changes coming from electronics on the wave of innovation.

Electric home appliances: The 1990 world demand is expected to total 43 trillion yen and will continue at an annual growth rate of 10 percent from 1980. However, the annual rate will not exceed three to four percent for new products with good prospects such as the current boom in VTR's, video disks, videos, cameras, CD players and current products such as televisions, radios, and stereos. New products not currently on the market will lead with double digit growth. That new product group consists of such things as home computer equipment and high fidelity video equipment.



**Business machines:** The production scale in Japan of 1993 is forecast as 9,454,700,000,000 yen. The annual average expansion rate after 1983 will be approximately 12.6 percent but there will be a weak expansion of 1-4 percent for things such as facsimile machines, electronic cash registers, POS, and typewriters. The highest annual growth can be expected in Japanese language word processors 30 percent, micrographics 17 percent and office automation equipment such as office computers, pascn, and facsimile 13 percent.

**Industrial electronic equipment and accessories:** Production of the Japanese electronic industry (including home and office equipment) will increase 2.5 times from 10,083,200,000,000 yen in 1980 to 24,624,500,000,000 yen in 1990 reaching an annual average rate of 10.2 percent. Industrial electronic equipment with emphasis on computers will be 12.7 percent and electronic accessories with emphasis on integrated circuitry and is expected to achieve an annual growth rate exceeding either average.

Upon looking at the survey results, we move from a perception of an industrial world under full sail before a favorable wind to a surprising fact that 30 percent of the top executives concluded that, "The innovation relative to high growth will not occur."

Sekimoto, president of Nippon Electric Co Ltd, with a tilt of his head, said, "I think it is a problem of the indecisiveness of executives as to whether or not to develop innovations. Certainly there are also categories of industry that are difficult to develop. But as an industrialist, I intend to develop innovations within 10 years and can not think there will be development in innovations without actively trying."

**Editorial staff:** It appears that executives pessimistic of innovations are beginning to ride the wave of electronics but it is doubtful that this will contribute to total growth.

President Sekimoto said, "When you speak of beginning, the gradual introduction of electronics is best. My pet theory is that electronics is new ideas and new opportunities. For example, even in the textile industry the use of the power of electronics will make growth possible."

One doctrine apparently concludes that growth is not an impossibility for electronics. Among those adherents, president Kashio of Casio Calculator Co Ltd assures that, "It is said that executives create all demands but actually they are not created. They create usages for electronics. For example, it is not a dream that there will even be satellite reception for that company's latest watch style liquid crystal TV. Integrated circuit cards are expected for use in calculators and credit cards in September and if the technical reform of electric batteries progress the outlook is for wide demand in bankbooks and cash cards."

Despite these advocates, the pessimists agree that the innovations during this recent advance fail to entice high growth above an annual rate of six percent. Executives of raw material and heavy chemical industries are not saying that innovations will not occur. To the contrary, feelings of expectation for innovations is extremely strong.

On the side of big businesses which have huge investments in a strong, mature market, the viewpoint of Kaneo, president of Nippon Kikan Kobushiki Kaisha is, "Innovations can not be tied to high growth. Innovations are occurring but without effort and even three percent growth is doubtful."

Similarly, Kanomori, president of Mitsubishi Heavy Industries Ltd said, "What is the attraction of the news media for electronics? The nucleus of the next period of innovations is without sporadic expansion and without strength. In spite of a small wave of about ten years, there has been little improvement. As for aircraft development, there has been a steady progress of shifting to large airplanes but no advances."

Electronics for ships is advancing but there seems to be no thought that shipping can recapture its previous vigor. "What is the true relationship of innovations to high growth? For example, hasn't the construction of jet passenger planes halved fares? Thus airplane users have increased and has certainly caused a great impact on the entire market. However, such innovations are under study in some places but so far results can not be seen."

Kawasaki Heavy Industries Ltd is in the vanguard of industrial robots. Its president, Hasegawa is skeptical. "A feeling of crawling in the bottom of a caldron continues. Private equipment investment in the use of robots has not yet come about. I can not think of any rapid innovations in view for the next ten years. The problem of longer lasting vacuum tubes found its solution in VLSI. Lasting longer is best; that which has gone before will not come around again."

Is a period of simultaneous blossoming of extra dimension innovations truly coming? The vast majority of the top executives seem to consider they will come 10 to 20 years from now. At that time even the electronics revolution will be entering an extra dimension.

According to Saeki, Shop president, "until now, high growth has been a continuous sign depending on innovations but there is no direct connection. From the tempo of current R&D and technical reforms, a sudden change will take place after 10 years."

Sekimoto, president of Nippon Electric Co Ltd said, "The electronics revolution will peak in 10 to 20 years. Afterwards, won't the lead pass to bio-technology? Both combined into bio-electronics may become the basis for molecular computers."

A 10 year period has quickly passed. It feels as if the oil shock had just occurred but 10 years have elapsed.

When measuring fluctuation in business conditions, previous common sense has been to prop them up government's public investments.

However, in a recent survey, responses to the question, "Can the government produce an effective demand policy for realizing new high growth?" indicated a narrow margin of 42 percent affirmative and 58 percent negative.

Kamei, chairman of Sumitomo Electric Industries Ltd said, "Lack of forethought results in the government's reckless public investments and reduced taxes. Before, in a famine situation it brought about approximately triple the effective demand but it can be said that now the degree is one to one. It is best for the government not to do the unnecessary. Previously, countermeasures for business conditions have not been achieved."

Unexpectedly, according to the survey, that knowledge is spreading to executives of industries related to social funds and public good which have profited greatly from public investments such as raw material and heavy chemical industries. On the other hand, results of a special industrial survey were that executives related to involuntarily austere consumer merchandizers, service industries and highly mechanized industries predominately asserted that an effective demand policy should be administered. High technology and service industries expect selective investments for bridges and roads even in a soft economy.

Okubo, president of Fujita Tourist Co Ltd, spoke of the major new role of high technology, "I take pride in Japan's economic vigor and leading role in consumption but we in service industries must bring about a significant increase in the intellectual level of culture, education, sports and leisure. These industries, including tourism, have until now put off this basic investment. Hotel management is again in a construction boom. It is the viewpoint of some that such hotels are swamped and that there is a slump in the profit ratio but that is not the case. Increase the supply and depending upon demand there is an increase in the economy...Thus, the potential demand for tertiary industries is firmly rooted."

Tsutoi, president of Mitsui Real Estate Development Co Ltd, also has the same viewpoint regarding vitalization of the urban economy. "Sendai and Sapporo are detached from the declining fortunes of local industry. The urban economy itself produces demands and employment while in the interior, industry has disappeared other than a large reclamation industry. The significance of this is that an urban redevelopment operation can create an expanded demand of a trillion yen."

By merely removing urban construction controls, investments by private development companies can be encouraged without being entirely subsidized by the government.

Kamei, chairman of Sumitomo Electric Industries Ltd, who was a member of the committee responsible for the survey stated, "The government made too many regulations based on the premise of a low cultural standard and thus restricted urban development and communications. Cancellation of these will bring about private vitality. Creation of a new economic society can not be achieved without enlarging domestic demand. Without collecting figures, it is obvious that there is a great feeling of expectation for business conditions."

Everyone believes that a large domestic demand is best. However, the real problem is what is the motivating force for future economic growth and 48 percent of the top executives hope merely for the recovery world business conditions as well as for America's.

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## ECONOMIC

### ITOCHU, MARUBENI, SUMITOMO'S STRUGGLE FOR TOP VIEWED

Tokyo ZAIKAI TEMBO in Japanese Sep 83 pp 88-93

[Text] "We haven't been involved much in things like disposing of assets such as stocks, and one might say that we have a healthy body devoid of any serious illness. To preserve this healthy body will be the first in the order of things in my mind as well."

These are the words of president Masashi Ito of the Sumitomo Corporation which, though ranked fifth in terms of sales volume among the major companies, has put up a good fight and shown its nerve insofar as the profit earning ability was concerned. Since inheriting the reign on 29 June from chairman Mitsuo Uemura, despite the heavy responsibility thrust upon his shoulders, he has been full of confidence on the strength of his good performance record of the past.

Specifically, as shown in the table, as of the close of accounts for the quarter ending in March 1983, Sumitomo recorded sales amounting to 11,353,900,000 yen and operating profits of 44.4 billion yen, which can only be described as a splendid performance.

Especially in terms of the profits, Sumitomo, although unable to match 62.1 billion yen recorded by Mitsui & Co, Ltd, surpassed 42.9 billion yen recorded by Mitsubishi Corporation and thus ranked second. Needless to say that, in terms of the profit ratio, Sumitomo in fact ranked at the top without any question. While it is currently at the fifth in the sales ranking, Sumitomo's securing the fourth position is only a matter of time and even the prospect of its becoming one of the top three is no longer a dream.

Put differently, it is none other than this vigorous upward pursuit by Sumitomo, which is very much on the minds of those involved, that has brought into the limelight the fight among the major companies over the third-ranking position. Right now, other companies in the same field are operating at a reduced scale or otherwise engaged in a structural reform, and yet, in the middle of all this, Sumitomo is doing so well. What, then, is its secret?-- one must wonder.

Chairman Uemura had this to say: "In our case, I tend to think that the redeployment from the defensive to the offensive went off relatively smoothly. Looking back the 6 years of my presidency, the first 2 years were rather

difficult, things finally began to take shape during the second 2 years and it was during the last 2 years that our 'posture' gelled, I might say. By 'posture' I am talking about the so-called 'Big Three and Best One' goal."

The "Big Three" refers to a quantitative goal of winning the third position in the sales ranking while the "Best One" is a qualitative goal aimed at achieving the first position in terms of the per-person productivity and efficiency.

That these words did not end up being a mere catchphrase is the secret of Sumitomo's success, and it may be said that the key to it all was the large-scale organizational reform--the first one in 17 years--carried out in July 1979.

True to its reputation of "being hesitant to cross a stone bridge even after knocking on it" [i.e., being overcautious to a fault], Sumitomo's attitude in the handling of the organizational reform was the caution itself. Conversely, that made the reform all the more dramatic.

The primary aim of the reform was to enable the company to "join the ranks of those companies with 10 trillion yen [sales volume each]," and the reform efforts were concentrated on the following two specific measures designed to materialize that aim: (1) To move away from the then existing organizational system of central authority and centralized management control, and move toward a system based on delegation of authority and regional autonomy in order to promote more speed, accuracy and aggressiveness in the day-to-day business dealings with clients; and (2) To incorporate the functions of operation, inspection, accounting and transportation into each of the business divisions in order to generate an integrated capability that can survive an era of low growth.

More specifically, with regard to the matter of delegating the authority, which was the principal theme of the reform, the 13 then existing separate and uncoordinated merchandise headquarters were regrouped into 4 major divisions--i.e., iron and steel; machinery and electric [could be electronic] items; nonferrous metals, chemicals and fuel; and living necessities. To each of these divisions a general coordinating officer with the president's delegated authority was assigned. These general coordinator positions were filled by most trustworthy vice presidents, who may be regarded as avatars of the president, and by entrusting them with the day-to-day operational control, the so-called "blitz warfare system" was put into effect.

As for the other matter of seeking a closer working relationship between the control and support elements and the business elements, the four functional centers of operation, control (inspection), accounting and transportation were partially reinforced and incorporated--as separate entities--into the operations center within each of the four business divisions; by so doing, a system was established in which higher priorities were accorded to the field operations. One specific example of this change can be seen in the creation of the iron and steel operations unit, the iron and steel inspection unit,

the iron and steel accounting unit, and the iron and steel transportation unit within the iron and steel operations center.

Then, applying the logic of doing something about the spirit after making a Buddha [i.e., not forgetting the seed after plowing the field], a certain level of discretionary power (the power to conclude transactions within the limit of 1.5 billion yen per case) and personnel authority were delegated to each of these general coordinating officers.

Four full years have elapsed since the initiation of this organizational reform which signalled a challenge in the form of a switch "from defensive to offensive." That this was not an organizational reform aimed solely at high growth is evident in the fact that an operational center was created in each of the four business divisions, thereby establishing a system for interdivisional coordination among the divisions handling different merchandise and for on-site inspection at field components.

During the era of high growth, it was good enough so long as each division and each section achieved a growth separately.

That kind of growth, however, cannot be expected in an era of low growth. The only way to grab a piece of shrinking pie and do it quickly and cleverly is to resort to the use of integrated power--this is the rationale.

#### Profile of Sumitomo President Ito

Speaking solely on the basis of the results of the closing of accounts for the period ending in last March, it seems reasonable to say that the blitz warfare system employed by various business divisions of the Sumitomo Corporation was a success, and that the need for demonstration of integrated strength was widely recognized with a visibly notable effect.

Nevertheless, the circumstances surrounding these trading companies are severe as reflected in such problems as the depressed market for raw materials, the trade frictions, counterpurchases, etc.

President Ito is saying, "Thanks to you, we have been able to secure the number one position in terms of net earnings, and I must preserve this status. This is a big responsibility. Moreover, from here on, we are into an era of quality, not so much of quantity, in the field of business management. More emphasis on quality, or number one in earnings--this will be my persistent objective, come what may."

He never says anything about the Big Three. In this respect, one might suspect a slight toning down in comparison with former president Uemura, who would not stop talking explicitly about "Big Three and Best One." But the truth is to the contrary.

"I will never lower the 'Big Three' flag. What I am saying is that, in light of the present circumstances, should we rashly pursue the matter of quantity, or might it not be better to revise our view?"

These words of President Ito may be viewed as a reflection of his relaxed state of mind now that the Big Three have come within the effective range.

Table: Major Companies Sales (in hundred million yen)

<u>Company</u>	<u>Sales</u>	<u>Operating Profits</u>
Mitsubishi Corporation	148,854	429
Mitsui & Co, Ltd	141,473	621
C. Itoh & Co, Ltd	124,902	338
Marubeni-Iida Co, Ltd	116,313	232
Sumitomo Corporation	113,539	444
Nissho-Iwai Co, Ltd	80,168	131

This man, President Ito, entered the company in 1949. Unlike the three past presidents before him, all of whom were alumni of the prewar Sumitomo main office, Ito is the first career employee to become the president. In other words, while it was not a preplanned move for the three former presidents that each of them eventually became the man of the company, in the case of Ito, he joined the company with a full intention to become a career company-man. This is all the more reason why there is such an extreme contrast between the three former presidents, all of whom distinguished themselves as experts in the management sector, and the incumbent who, for instance, takes pride in his career background as an operations man.

On top of all this, he is also a die-hard and a tactician. He himself likes to say boastfully and openly, "During my student years at Kobe First Middle School and then at the First Higher School, I was a rugby fanatic. Perhaps that's why I still like to form a scrum with everybody and keep pushing to the end."

He is well regarded within the company, where there is even a strong feeling that "finally, we could possibly emerge as a trading company worthy of the name." Of course there are problems, too. But, as reflected in this joke about him saying, "Frankly I had wanted to become a government official, but the employment counselor at the school said that if I went to work for this company, the company would feed me, lunches, and so I applied and ended up being accepted," he is a man of hungry nature. This combined with his inherently offensive character will tend to turn the Sumitomo Corporation into a very interesting company in the days ahead.

Thus, judging from the way things are going, it looks as though the Sumitomo Corporation, which, up to now, has always been generally referred to as "a trading company which doesn't act like one" or "an errand boy for the Sumitomo Group," is about to undergo a complete transformation into "the wild one of the trading companies." By contrast, the Marubeni and the Itochu, both of which are ranked higher than the Sumitomo, are somewhat in the dumps at the moment.

In the case of Marubeni, for example, the results of its closing of accounts for the same period ending last March were disastrous in that it was nearly



caught up by Sumitomo in the sales and its operating profits were half of Sumitomo's. On top of that, it had to reduce dividends for the first time in 21 years. As a result of these adverse developments, a sense of crisis now pervades within the company.

Particularly noteworthy is the massive stock disposal, amounting to 47.5 billion yen--the largest amount since the founding of the Marubeni, undertaken by the company at the last March's closing of accounts. By this action the Marubeni "cast away" its stockholdings on such operationally stagnating companies as the Nagoya Pulp and the Kobe Sugar Refinery. Commenting on this move, vice president Koichi Aoi of the company said with a glum expression, "We had no choice but to resort to such a drastic measure."

Furthermore, again this year as it had done last year, Marubeni even disposed of its holdings of the Nissan Motor stocks, which are normally regarded as valuable as a tiger cub. Internally, unnecessary and unurgent business trips, the use of telex and overseas telephone calls were ordered curtailed, throwing its employees, so thoroughly accustomed to the ways of a high-growth business, into a state of perplexity.

#### Itochu's "Samurai" Yonekura

Likewise, the Itochu discontinued a long-term tanker charter contract involving the Toa Oil Company--a contract that had been an operational drag, and also accounted its subsidiary land holdings worth 6.9 billion yen as part of special losses. The total bad assets written off by these measures, including ordinary depreciations, amounted to 51.7 billion yen, which was the largest next only to the 54.1 billion yen write-off for the accounting period ending in March 1980.

The company's frantic attitude is reflected in the following remarks (by vice president Kenji Aoyagi): "The readjustment of bad assets is finally on the right track. What we want is to relieve ourselves of these burdens so that we may return to a dividend payment of 6 to 10 percent."

Both companies now appear to be preoccupied in an effort to rid themselves of the flaws carried over from the days of high growth. On the other hand, a holding pattern reflected in the accounts settlement may be linked to a positive step of pressing out the pus. The assessment of the situation, therefore, could vary.

This being the picture, it is logical that much hopes for the future are pinned to the abilities of the two new presidents--Isamu Yonekura of Itochu and Kazuo Haruna of Marubeni.

In fact, commenting on Itochu, a leader of another company in the same line of business said, "Itochu has been saddled with a serious case of Achilles' heel. I am referring to the two major problems which resulted from the company's expansion policy during the days of high growth: One is the problem involving the Toa Oil Company, the other is the problem of bad immovable assets. But at the latest settling of accounts, in line with the last project he had

initiated when he was still the vice president, president Tokoro Yonekura disposed of two super tankers and eight medium and small tankers, thereby completing the disposition of the problem related to vessels. He is also negotiating the sale of the 50,000-barrel refining share of the Toa Oil's Kawasaki refinery. All of this is indicative of the soundness of his approach to the problem solving. I think he has just a bit more to go."

Reflected in this assessment is the fact that Itochu, although having secured the No 3 position among the general trading companies as a result of its merger with the former Ataka & Co, Ltd, has had problems in recovering from the post-oil shock symptoms and its earnings still leave something to be desired, but that its wound is finally beginning to heal and it is now entering into a takeoff mode.

"Frankly speaking," the same source added, "Mr Tosaki (Seiki Tosaki, present chairman) had had to concentrate on 'defensive' management in order to take care of these post symptoms, but from here on quite a bit of the 'offensive' side will show up. I think it is not inconceivable that Mr Tosaki's decision to pick Mr Yonekura as his successor was based on his recognition of the 'offensive' element in the overall trend. Of course another contributing factor was that the prospect of solving the carried-over problems became hopeful."

Former president Tosaki, who has taken the back seat as chairman, had this to say: "Even viewed objectively, I think our company's combat potential is quite formidable. Despite everything being said about us, we are still firmly holding onto the No 3 position. Had it not been for the carried-over problems from the past, we would not be the kind to hang around in the mere No 3 position. Our future is in the good hands of Mr Yonekura. The Yonekura color will become increasingly prominent as time goes on."

This man, president Yonekura, in the words of Tosaki "is a man with an outstanding sense of balance, which is absolutely essential for a trading company doing business using other people's money. He is also a man who can say clearly 'Yes' or 'No' in whatever kind of situation that may confront him."

Yonekura himself says, "From here on management means offensive and defensive. This is the fundamental of the trading company management, and I also believe that both will be in demand during my times." At the same time, he aims a word of pointed criticism at the past management by saying "Offensive was our sole weapon during the days of high growth. Had we only been a little more defensive-oriented, we would not have had to suffer so much." This, among other things, is why he is known as "samurai" within the company.

Yonekura joined the company in 1947, and immediately he was put through a hard learning process in textile work under a superior named Tosaki. For 30 some years since then, he has been carefully nurtured as Tosaki's protege.

In other words, the ace of all aces has become the president. As a result, how will Itochu change in the days ahead is something worthwhile to watch. With Marubeni closing in from behind, the stage is also set for a real test of the new president.

## Marubeni's Haruna, the Lucky One

Now, speaking of Marubeni, the company is undergoing a leadership change from the late president Matsujiro Iketa, who fell victim to a hip ailment, to Kazuo Haruna, the new president.

About this untimely change in the company presidency, chairman (Yasuichiro) Matsuo, who has served as the acting president, says, "Mr Iketa has been less than 2 years into the first term of his presidency. At times I've tried to calm him down in doing his job, and at other times I've spurred him on. At any rate, unlike the makers, for a trading company everyday is the battlefield because, for one thing, there are many visitors from overseas. He knew this better than anybody else. Because he himself expressed the desire to resign, we have designated Mr Haruna as the successor. For Marubeni, president Iketa's retirement was a heavy blow. Naturally it would have been a different story if there had been signs of recovery. The situation being what it is, it is a matter of extreme regret."

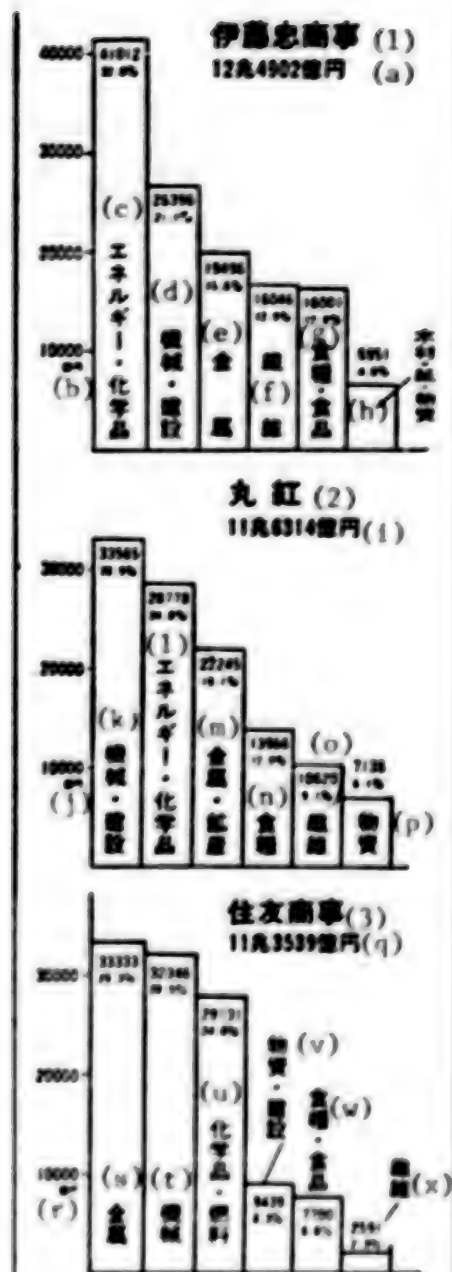
Iketa had the reputation of being a man of unusually strong sense of responsibility and he was adored by the company employees. That's all the more reason why this untimely succession drama--granted it was an event forced by unavoidable circumstances--seemed to us a display of the insentience on the part of organization.

Such being the case, might it not make things more difficult for the successor, new president Haruna? As for Haruna himself, with some awkwardness--understandable under the circumstances--he explains his intended course at the helm with these words: "My relationship with Mr Iketa is that of two men who have long shared rice out of the same pot. I understand him well, and I also know what has been on his mind. For now, naturally I intend to follow the Iketa line."

Plainly put, the Iketa line means to regain the No 3 position. While he was still alive, Iketa used to say with emphasis, "Now that our wound from the Lockheed incident is healed, we have completely regained our power. Our employees, too, sensed this from the result of our closing of accounts as of March 1980. After all, we have nearly caught up with Itochu. People might say that we fell to the No 4 position, but it happened only because Itochu merged with Ataka and it was in no way due to our own mismanagement."

For president Haruna, too, the matter of retaking the No 3 position must be an earnest wish. He has a long-standing reputation as a man of enterprise, and his shrewd ability is said to have been the cause of some difficult moments for the leaders of both Mitsui & Company and Mitsubishi Corporation in the past. Some people even use the word "fearful" in describing him. The question is, how will he apply his driving force to the rebuilding of Marubeni?

"Relatively speaking, for the past 2 years Mr Iketa has maintained a low posture for the sake of harmony which he valued more. He was about ready to change all this and finally start showing the Iketa color when he suddenly removed himself from the scene. Compared to Mr Iketa, Mr Haruna is a man



# Key:

- (1) C. Itoh & Co, Ltd [Itochu]
- (a) 12,490,200,000,000 yen [total sales]
- (b) In hundred million yen
- (c) Energy and chemical products
- (d) Machinery and construction equipment
- (e) Metals
- (f) Textiles
- (g) Staple food and foodstuff
- (h) Lumber, paper and materials
- (2) Marubeni-Iida Co, Ltd
- (i) 11,631,400,000,000 yen [total sales]
- (j) In hundred million yen
- (k) Machinery and construction equipment
- (l) Energy and chemical products
- (m) Metals and minerals
- (n) Staple food
- (o) Textiles
- (p) Materials
- (3) Sumitomo Corporation
- (q) 11,353,900,000,000 yen [total sales]
- (r) In hundred million yen
- (s) Metals
- (t) Machinery
- (u) Chemical products and fuel
- (v) Materials and construction equipment
- (w) Staple food and foodstuff
- (x) Textiles

Figure. Amount and Percent of FY82 Sales by Merchandise by Three Companies

of considerably more individualistic character. As such, one must wonder whether he might not come up with a strategy which is quite different in substance." (an official of a major trading firm)

Had Iketa been alive and well, probably the seat of president would not have come around to Haruna. The position he once lost has now come back to him--such is the luck of this man.

"Just like a pitcher who appeared on the mound without any warming-up," this was the way Haruna described his own appointment as the president. How he is going to handle himself under the difficult circumstances remains to be seen.



At any rate, the battle is on for the No 3 position in the general trading companies league, which has become interesting as a result of great strides made by the Sumitomo Corporation. It seems reasonable to say that the outcome will ultimately depend on the matchup of the talents and personalities of the three newly appointed presidents.

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## ECONOMIC

### USE OF ENTERPRISE SURPLUS FUNDS FOR INVESTMENT STUDIED

Tokyo KEIEI KONSARUTANTO in Japanese Jul 83 pp 30-35

[Text] Active Use of Surplus Funds Has Increased

The amount of money raised by enterprises through issuing stock was at the 1 trillion yen level around 1970, but in the latter half of the 1970's it increased to the level of 3 trillion yen, and in 1981 it reached 5 trillion yen. In 1982, at 4 trillion yen, it was down 20 percent, but this year a rise of more than that is foreseen.

In fiscal year 1981, supported by investment by foreigners, offerings of stock to the public and the issuance of convertible debentures each reached the highest amounts in history.

Particularly notable is the fact that in the last fiscal year, the issuance of ordinary bonds on the foreign market underwent a huge increase, reaching 730 billion yen, four times the amount of the average year and more than 12 times that of fiscal year 1981.

During the past 5 years, when low growth prevailed, each enterprise actively planned the buildup of its net worth, and the number of enterprises which liquidated their debts completely or reduced them by half increased.

Under high growth, each enterprise went on borrowing money from banks, investing in plant and equipment, and expanding their business. But the first oil shock, the greatest turning point in the postwar period, besides teaching enterprises the weakness of deficit management and turning them in the direction of scaled-down management, also made them realize the importance of accumulating money and using it efficiently. That, they found, is the secret of living under low growth.

After 1975, the long-term decline in plant and equipment investment continued, and due to such things as progress in inventory adjustment, enterprise capital deficits declined greatly, becoming much lower than the public sector's funding deficits.

During this time, on the management side enterprises have emphasized the strengthening of scaled-down management and have promoted a reform of their

financial affairs through such means as the reduction of costs, the compression of operating funds, and the lightening of their interest burden by repayment of debts. As a result, centered around large enterprises, the degree of dependence upon banks loans has declined, while surplus funds have gone on growing gradually.

This means that within the total amount of capital raised by enterprises, the proportion filled by equity capital, such as internal reserves and depreciation, has risen, and that, conversely, the degree of dependence upon outside funding has declined, and in particular, the degree of dependence upon long- and short-term loans has dropped sharply.

Enterprises are strengthening their portfolio positions with an emphasis on profitability and liquidity by such means as applying the surplus funds produced by this sort of financial reform to repurchase agreement investment and other investment in bonds.

Observing trends in the investment of enterprise funds, what enterprises set their eyes on first was the repurchase agreement market, where one buys and sells bonds under the condition of returning them.

The repurchase agreement market is a market in bonds which is carried on with the condition that after a specified period of time (less than 1 year, normally 1 to 3 months) one buys back (or sells back) the bonds. Compared to bank deposits and such, the interest is high, and since the period of investment is flexible, it has the advantage that it is possible to adjust investment to the dates when various kinds of payment are due.

From the time of the development of the long-term bond market which accompanied the large-volume issuance of government bonds, the number of enterprises purchasing high-interest, seasoned bonds has also increased.

Furthermore, the spring of 1979 saw the appearance of CD's (certificates of deposit), which are large bank deposits with unregulated interest; in December 1980 through revision of the "Foreign Exchange and Foreign Trade Control Law", the restriction on the size of foreign currency accounts was abolished; and from 1981 to 1982 government short-term securities (TB) held by the Bank of Japan were sold off in large quantities on the market in a form making it possible to invest in them at a discount rate. In this way suitable avenues for the investment of assets have come along to enterprises one after the other.

Almost all of these interest commodities are ones on which interest is not regulated; they are attractive as investments compared to the regulated interest commodities, such as bank deposits, which have existed up to now, and are most suitable for enterprises which seek efficient investment of funds.

Until about 1975, the proportion of investment in unregulated interest commodities fluctuated at less than 10 percent, but in 1979 it shot up to 44 percent in one leap, and recently it is believed to have reached 50 percent.

Table. Structural Comparison of Domestic and Overseas Issuance of Securities by Japanese Enterprises

(1)		年度		1980	1981	1982	82.4-9		82.10-83.3	
				億	億	億	(4) 億	億	(5) 億	億
(2)	国内市場	普通社債	付	32.6	25.2	26.1	6,025	31.2	4,450	21.3
		ワラント付社債	付	—	0.4	1.2	330	1.7	140	0.7
		転換社債	付	13.2	10.5	10.4	1,840	9.6	2,335	11.2
		株式交換	付	27.9	35.7	25.2	6,813	30.4	4,209	20.4
(3)	海外市場	普通社債	付	3.6	71.8	62.9	14,068	72.9	11,184	63.6
		ワラント付社債	付	—	1.2	18.2	1,652	8.6	8,645	27.1
		転換社債	付	5.9	20.8	15.7	2,795	14.6	3,528	16.9
		株式交換	付	3.5	5.6	1.6	356	1.8	268	1.3
		小計	計	45.4	28.2	37.1	5,227	27.1	9,679	46.4
		合計	計	100	100	100	19,293	100	27,853	100

(1) (資料) 第1表と同一。

(2) (注) 国内市場は日本国内市場、海外市場は海外市場。

Key:

- |                                  |   |
|----------------------------------|---|
| 1. Fiscal year                   | 11. Ordinary corporate bonds  |
| 2. Domestic market               | 12. Corporate bonds with warrants                                     |
| 3. Overseas market               | 13. Convertible debentures  |
| 4. 100 million yen               | 14. Issuance of stock   |
| 5. 100 million yen               | 15. Subtotal  |
| 6. Ordinary corporate bonds      | 16. Total   |
| 7. Corporate bonds with warrants | 17. (Data) The Nomura Securities Co., Ltd., Nomura Research Institute |
| 8. Convertible debentures        | 18. (Note) Overseas ordinary corporate bonds excludes government      |
| 9. Issuance of stock             | guaranteed bonds and bank notes                                       |
| 10. Subtotal                     |   |

The direction of companies which deal in unregulated interest commodities is widespread in industries of all types: automobiles, iron and steel, home electrical appliances, foodstuffs and machinery. Enterprises which employ the same sort of strategy are increasing, not only large enterprises but both mainline and smaller enterprises, and the medium-term government bond investment funds of securities firms are as popular with smaller enterprises as they are with individual investors.

Meanwhile, as mentioned above, in major enterprises the raising of capital through the issuance of securities is also becoming an established practice. The increased activity in the issuance of securities on the overseas market in 1980 was a matter for wonder. A tendency toward bifurcation was seen: issuing stock at the market price on the domestic market and issuing convertible debentures and ordinary bonds on the overseas market.

The raising of capital on the overseas market by our nation's enterprises increased suddenly around the time of the second petroleum shock. It occurred against a background of investment by foreigners, mostly of oil money, and in fiscal year 1980 it reached the level of one-fourth of the amount of Japanese securities issued in Japan and overseas. In fiscal year 1982, the proportion of overseas capital procurement was 37 percent, over one-third, and within that, in the second half of the year 46 percent, about half, was overseas financing.



Table. Enterprise Fund Raising Through the Issuance of Securities  
(Unit: 100 million yen)

(1)	年度	1975	1976	1977	1978	1979	1980	1981	1982
(2)	資本金増	9,025	8,234	7,094	10,330	6,604	11,601	17,932	10,132
	国内	211	942	687	133	146	1,080	2,812	624
	海外	3,310	669	1,625	2,770	3,636	964	5,260	4,175
(3)	転換社債	1,821	1,365	2,213	4,321	5,640	5,171	10,325	6,323
	国内	—	—	—	—	—	—	200	470
	海外	—	—	—	—	—	—	443	662
(4)	ワラント	15,042	11,664	12,408	13,133	12,981	9,935	12,692	10,475
	国内	2,926	2,368	1,666	1,302	1,870	1,836	601	7,297
	海外	27,377	20,453	21,127	26,233	23,121	22,601	36,081	25,252
(5)	普通社債	4,958	4,665	4,366	5,786	7,656	8,087	14,181	14,906
	国内	—	—	—	—	—	—	—	—
	海外	—	—	—	—	—	—	—	—
(6)	合計	32,335	24,118	26,493	31,989	30,777	30,588	60,263	40,158
(7)	合計	—	—	—	—	—	—	—	—
(8)	(資料) 野村証券、野村総合研究所、								
(9)	(注) 1. 国内の普通社債は公募債のみ、海外普通社債は政府保証債、銀行貸付金等、								
(10)	2. 資本金増は全部公開募集の額であり、第三者割当て、公募の合計額、								

Key:

1. Fiscal year
2. Paid-in capital increase - Domestic, Overseas
3. Convertible debentures - Domestic, Overseas
4. Corporate bonds with warrants - Domestic, Overseas
5. Ordinary corporate bonds - Domestic, Overseas
6. Total issuance of securities - Domestic, Overseas
7. Total
8. (Data) The Nomura Securities Co., Ltd., Nomura Research Institute
9. (Note) 1. All types of corporate bonds in Japan are public issues. Overseas ordinary corporate bonds excludes government guaranteed bonds and bank bonds.
10. 2. The paid-in capital increase is the total amount for the distribution at par, the allocation of new stock to third parties and public subscription for all listed corporations in Japan.

If we examine the second half in greater detail, in the period between January and March 1983, added to the overseas issuance of ordinary corporate bonds, the issuance of convertible debentures showed an increase again. Of the overseas convertible debentures in the second half, 75 percent were issued between January and March. The amount issued overseas surpassed the amount issued domestically.

It is clear that the direction of overseas financing in fiscal year 1982 was not to seek abundant oil money, as had been the case in the past.

It can probably be said that the internationalization and diversification of our nation's capital procurement, which began against the background of oil money, entered a new stage through the rich experience of enterprises.

Thus, raising liabilities increased through enterprises building up their equity capital, and they all concentrated on overseas markets, especially Switzerland. Switzerland was chosen due to the cost aspect and the simplicity of the procedure; in fiscal year 1982, led by unlisted companies (11 companies

such as Seibu Department Stores), eight electric power companies other than the Hokkaido Electric Power Co., Inc., issued ordinary corporate bonds in Swiss francs. Awareness increased concerning the cost of funds for companies wishing to issue bonds domestically, and the companies reflected this by their action in seeking efficient overseas markets.

In this way, enterprises have strengthened their posture of seeking markets for raising capital by a comparison of costs.

In February this year, the issuance of long-term government bonds was suspended and the domestic flotation of industrial bonds also came to a halt. Industrial bonds were moved to Swiss franc bonds with interest under 6 percent, which is less than the 7.88 percent (10-year bond) interest paid to domestic subscribers.

In March the interest for subscribers to government bonds was raised and 1.1 trillion yen worth were issued; the interest moved in a reverse direction to that of industrial bonds. In regard to domestic convertible debentures, the issuing conditions of which have become more flexible than those of industrial bonds, the coupon differential with Swiss franc bonds widened suddenly. In 1982 the differential was about 0.5 percent up till September, but with the lowering of interest rates on the Swiss market, the interest on the bonds dropped from about 6.0 percent to about 3.5 percent. As a result, in early 1983 the differential with the domestic pivotal rate increased to 2.9 percent at one stroke. The fact that the flotation of convertible debentures suddenly increased again over between January and March was due partially to the healthy condition of the stock market, but it was really caused by the outlook for stability in the value of the yen and by this coupon differential.

#### A Group of Internal Finance Companies in Enterprises Have Begun Operation

Thus a review of finance departments is now being undertaken as a management strategy of enterprises in the face of low growth, and in every enterprise moves are evident to actively promote a change to greater efficiency in the investment of funds. In fact there are many companies for whom black ink in the financial balance is contributing greatly to profits. Under an economy in which transitions of commodities slow down, due to low growth, one's interest is bound to turn to the yield on investment. For that very reason, one must become fussy about the interest returned on investment, and investment strategies, too, become more elaborate.

In America, the movement whereby large enterprises combine their own funds with those of their subsidiaries to form their own finance companies emerged over 10 years ago and has taken root; in our own country, too, among one segment of enterprises, firms have formed their own finance companies.

This not only aids the efficient investment of surplus funds, but it also provides diversification of capital procurement and improves the enterprise structure through strengthening the finance department and making it more efficient. It probably means that managers have perceived that this is a management strategy, an effective device, for bringing enterprises through a period of low growth.



The financial assets of the Matsushita group centered around Matsushita Electric Industrial Co., Ltd., have already surpassed 1 trillion yen. In terms of a bank's volume of capital, it is about the same as that of a medium-size provincial bank. This includes 612.5 billion yen in cash accounts for short-term negotiable instruments. Matsushita Electric alone holds financial assets in excess of 500 billion yen. Through investment of these financial assets, the Matsushita group makes an annual profit of 80 billion yen. In other enterprise groupings as well, Hitachi, Ltd., has financial assets of 980 billion yen (consolidated financial statement for the first half of fiscal year 1982), and Toyota Motors has financial assets of 830 billion yen (as of the end of the third quarter; December 1982).

In other industries as well, there has been an increase in the number of firms forming a finance company within the enterprise and using it to raise capital for the group.

For instance, Seibu Distribution Group founded "Ace Finance", with joint funding from the Nippon Long-Term Credit Bank.

Takeuchi Toshio, chairman of Seibu Credit, relates his ambitions as follows: "So far, the main thrust has been credit card business, but with that alone our worth would be questioned, so in the future I would like to build it into a capital procurement company."

The antecedent of that firm is the former Midoriya, an installment sales firm. But the strategy of the Seibu group is to turn it into a company specializing in finance. In an era when one can purchase by installments even at department stores, installment sales firms cannot beat their competition; for this reason, jurisdiction over the sales departments has gradually been transferred to Seibu Department Stores, and the plan is for Ace Finance to assume the role of finance bank for each of the companies in the Seibu Distribution Group in the future.

Mitsui Co., Ltd., has established "Bussan Credit", essentially a finance corporation within the group, which joins together the company's subsidiaries and affiliates by means of an online computer system.

It is a finance company subsidiary 100 percent funded by Mitsui. In addition to concentrating all bank transaction business and accounting business in Bussan Credit, it is the company's policy to have Bussan Credit take charge of the work of factoring (the buying up of bonds) for subsidiaries and affiliates, and, regarding investment of capital, to manage the investments in negotiable instruments and venture businesses.

Concerning the advantages of having a finance corporation set up within the group, Bussan Credit Executive Director Matsuoka says: "At present the main thing is to aid affiliates in the aspect of financing. Having set up financing within the enterprise, first of all, is extremely convenient for subsidiaries and affiliates, and there is a big advantage connected with the stability of funding costs. In addition, freedom from the risk of credit judgments is also a big advantage."



In any case, to the subsidiaries and affiliates, at present the internal finance company is no more than an aid whereby they can receive financing from the parent firm without undergoing troublesome inspection by banks. The parent company, on the other hand, is able to anticipate a profit from this financing, and this is related to the strengthening and expansion of the finance department.

Mitsui has some 70 to 80 subsidiaries, and according to Mitsui's plans, the subsidiaries and affiliates which would come under centralized administration are sales companies that have no financial specialists. If small-scale enterprises carry on transactions with banks independently, costs such as the personnel cost of employing a specialized financial manager and business costs become a great burden, but this is greatly reduced with centralized processing through a bank within the group.

In Japan, the number of enterprises that have established internal finance companies is still extremely limited; it still has not reached the point, as it has in America, where enterprises finance numerous other companies and individual consumers.

In July, "Yusen Accounting and Finance" was set up by Nippon Yusen K.K., and began operation.

In that company, too, the aim is the same as that of Bussan Credit: to provide aid in financing for the company's almost 130 subsidiaries and affiliates; but in the future it would also like to get into the leasing business, using the finance income derived from this activity.

Nippon Yusen's finance division chief, Asano, and President Sakai of Yusen Accounting and Finance publicly emphasize that at present they have no inclination to expand the business, saying: "The main thing will be financial business such as capital procurement for all the companies in the Nippon Yusen group. In addition, we are aiming at decreasing the cost of processing accounting business and increasing our knowledge of accounting work. The major aim in setting up this company is rationalization of the finance department and a change to greater efficiency in that department. We have no intention of doing the work of banks, in the future, by lending money to other companies. As might be expected, the risk of extending credit is great, and we think it would be dangerous for amateurs like us to do it."

In addition, the Asahi Chemical Industry Co., Ltd., group and trading companies such as C. Itoh and Co., Ltd., Nissho-Iwai Co., Ltd., and Marubeni Corporation have also set up finance companies within their enterprises.

**As Enterprises Separate From Banks, Finance Departments Make Diversified Investments**

Thus enterprises are actively promoting increased efficiency in their financial affairs through direct financing, and by this means they will receive benefits such as the following:

(1) Through the repayment of debts, their funds in bank accounts are freed. (2) Through fund raising by the system of securities liquidity is increased, which raises efficiency. (3) They can invest in marketable short-term bills, foreign currency deposits, CD's and the like, matching them to payment periods. (4) In regard to expansion of investment in plant and equipment and an increase in operating funds, it is possible to construct a benign circle by financing with funds on hand.

Banking facilities, led by the metropolitan banks, are probably especially nervous concerning this move by enterprises.

This is because it can be said that the freedom of enterprises to procure capital based on their independent judgment has grown; what might be termed their "degree of financial independence" is increasing.

"Recently we have not had any difficulty in procuring capital. Formerly we had to scurry around to the banks with our heads bowed, but now we can obtain funds without going to so much trouble. Instead, we take pains over the problem of quality, that is, how to go on reducing costs." Thus Nippon Yusen's Asano says that there is little difficulty in capital procurement, and this opinion appears to be shared by all those responsible for finances.

Of course, they can probably say this because they are part of a large enterprise, but in any case, these words indicate the separation of enterprises from banks.

As a result, banks have come to direct their financing activity away from corporations and toward general consumers, and this, in turn, has stirred up fierce competition between banks and small and medium-sized finance facilities.

Behind the decrease in the size of the market share for private sector financial facilities lies the fact that for corporations and individuals the choice of financial assets has become diversified. It is said that in general the criteria for choice in financial assets consist of three points: safety, liquidity and profitability. While cash and liquid accounts are not growing as financial assets for individuals, fixed term accounts (especially fixed balance postal accounts) and investment in securities centered around corporate stock are showing a high rate of growth.

Meanwhile, as mentioned previously, for enterprises the separation from banks has advanced by one step due to the fact that the importance which investment in bonds occupies in their liquidity has grown.

In other words, the fact that banks were unable to provide a service answering the needs of individuals and enterprises has brought about the separation. Furthermore, will not banks be put in an even more precarious position if the number of enterprises that establish this sort of internal financing increase?

"Of course, the competition is fierce. But the banks will probably survive by heading in new directions. One such direction is activity which fully exploits their capacity to gather information. They should go on answering the needs of consumers by promoting mechanization and providing all sorts of information. They should provide enterprises with information which is useful in management--in other words, play a consulting role; and for individuals, they should create a farm banking and home banking system through which it is possible to obtain information on all sorts of financial products." This is how the Dai-Ichi Kangyo Bank, Ltd., views the direction banks should take in the future.

In any case, it is a scramble for money in which banks, securities, trusts, long-term trust banks and the post office are jumbled together. Recently, an era has arrived in which everyone from large credit companies and installment sales companies to supermarkets is loaning money. In other words, it is changing from an era of selling goods to an era of providing credit.

The industrial structure has begun to change from one centered around materials industries to one of service industries; now we are about to greet the transformation into an advanced information society.

Consumers who are satisfied materially have now begun to place value on information and on spiritual things. For instance, they have come to seek things such as education and leisure.

Formerly, people's needs were calculated on the uniform aspect of goods, but now the needs of consumers are diversified; for example, people have discovered value in more spiritual, intangible things and will pay a price for them. They borrow money from people in order to purchase this sort of inner substance.

One can also consider that this sort of social background is one of the factors that gave birth to the "finance war".

Sitajima Tomio, auditor for Nippon Steel Co., Ltd., hints at the future direction of financial dealings as follows: "From now on, people will not have to sweat to produce things. At this time, when things are available in abundance and markets are limited, it has become necessary for enterprises to go on discovering alternate sources of profit. And the financial strengthening of enterprises, too, is consistent with that; in the future, performance in the investment of funds will hold an important key. From now on, the financial administrators of enterprises must try to look ahead and choose the most efficient investments for their funds. It is not merely a matter of increasing assets through the issuance of bonds and the purchase of high-yield commodities; should we not consider using our assets effectively and appropriately by such activities as lending money to enterprises with good future prospects and buying up enterprises?"

Up to now, in Japan there has been resistance to the buying up of companies, in so-called "takeovers" [the term in Japanese is the same as that used for

hijacking, and so has a bad connotation], but it is thought that, considering the risks inherent in the present situation, wherein major industries are no longer able to envisage high growth and many enterprises are groping for entry into new high-growth fields, some large enterprises will absorb smaller enterprises through mergers or by buying them up.

When one talks about the buying up of enterprises in our country, the firm that is sure to be mentioned is Minebea. In the past 2 or 3 years, that company has bought up the stock of, and then merged with and absorbed Tokyo Spring Works, Shinko Communications Industries, Shin Chuo Industries and Osaka Wheel Works.

In addition, in one segment of the service industry can be seen the moves of Dai-ichi, Inc., buying up the stock of Takashimaya Co., Ltd., and of the Seibu Distribution Group providing capital to Tokyo Theater Co., Inc.

At present, Minebea is about the only enterprise in Japan that has begun to buy up other enterprises in earnest, but there are portents that in the future, centered overseas to begin with, many Japanese enterprises, banks and trading companies will become active in buying up other enterprises.

In any case, it is probable that the financial strengthening of enterprises will advance further and a new financial age will arrive.

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## ECONOMIC

### PRESENT STATUS OF NATION'S FOREIGN CLAIMS, DEBT BALANCE REVIEWED

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[Article by Takao Misawa, assistant to chief of Research Section, International Finance Bureau, Ministry of Finance: "Present Status of Japan's Overseas Assets and Liabilities Balance"]

[Text] Structure of Overseas Assets and Liabilities Balance Table

There are two types of representative statistics that show an inclusive picture of a nation's overseas economic transactions: one is known as "international revenue and expenditure," the other as "overseas debit and credit" (also known as "international debit and credit"). The "international revenue and expenditure" is a statistical summation that shows the flow of a nation's overseas transactions involving goods, services and capital for a given period of time, whereas the "overseas debit and credit" is a statistical depiction of "stock" showing the balance of a nation's overseas claims and liabilities at a given point in time. Viewed in comparison with the corporative accounting procedure, it may be said that the former is equivalent to a profit and loss statement and the latter to a balance sheet.

The overseas assets and liabilities balance table, which shows overseas debit and credit, is prepared by making the necessary adjustment to the sum total of each entry under the broad-sense capital revenue and expenditure (the sum total of long-term capital, short-term capital, and monetary accounts which are part of short-term capital; for the monetary accounts, the symbol is reversed before they are added with other items) contained in the annual international revenue and expenditure table. Meanwhile, the international revenue and expenditure table is prepared using the IMF formula based on the double-entry bookkeeping principle. In other words, it is based on the idea that each overseas transaction, when it is recorded either as a debit entry or as a credit entry, will also be recorded simultaneously as a credit entry or as a debit entry under a corresponding item elsewhere in the book. When the credit and the debit columns do not balance out, errors and omissions are taken into account in order to achieve balance. Looking at it another way, it is so structured that the combined total of the balance of the operating revenue and expenditure and the balance of the broad-sense capital revenue and expenditure--the two component items that make up the international revenue and expenditure table--will produce a zero. Consequently, the increase or decrease in the net assets,

which is the difference between the overseas assets balance and the overseas liabilities balance, will in theory correspond to either the surplus or the deficit in the operating revenue and expenditure. In practice, however, the black or the red ink in the operating revenue and expenditure does not necessarily correspond to the increase or the decrease in net assets. The reason for this is that while in the international revenue and expenditure table the overseas transactions are, as a rule, figured at the actual value of each transaction when it occurred, in the overseas assets and liabilities balance table, based on the thinking that current value should be reflected as much as possible, appropriate value adjustments are made to the cumulative total of the capital revenue and expenditure within the international revenue and expenditure. Broadly speaking, there are three situations in which the valuation increase or decrease occurs. One such situation is when the valuation increase or decrease is caused by fluctuation in foreign exchange rates. As assets and liabilities are recorded not only in U.S. dollars but also in Japanese yen, West German marks, Swiss francs, etc., in order to tabulate them in one set of statistics, they must be converted into one currency such as U.S. dollars. Depending on the timing of such conversion, different conversion rates would apply, which in turn would result in the valuation increase or decrease. Take the yen to dollar conversion rate, for example: the rate as of the end of 1981 was 210 yen to a dollar, but it changed to 233 yen to a dollar as of the end of 1982 (the rates are based on the "Ministry Ordinance for the Reporting of Foreign Exchange Transactions, etc."). A yen-based asset (or liability) of 210 yen would have been recorded as \$1.00 as of the end of 1981, but the posted value in U.S. dollars of the same 210 yen--even if its value remained unaffected by transactions taken place during 1982--would have been reduced to \$0.9 as of the end of 1982. The second such situation arises when a balance adjustment is made to part of the items, such as trade credit and securities investment, of which it is possible to figure out the balance at any given moment. The third such situation involves stocks purchased by foreign nationals on the market, in that such stocks are revalued according to the current prices and this in turn causes the valuation increase or decrease. Additionally, the errors and omissions occurred in the preparation of statistics also cause discrepancies.

Using the statistical figures for 1982, let us now see how the interactions described above actually work. In the overseas assets and liabilities balance table, the first step taken is to add up the items of broad-sense capital revenue and expenditure within the international revenue and expenditure. In this case, an outflow (or an inflow) of domestic capital in the context of international revenue and expenditure will mean an increase (or a decrease) of assets to be reflected in the overseas assets and liabilities balance table, and an inflow (or an outflow) of foreign capital will mean an increase (or a decrease) of liabilities. As shown in the figure inserted, in the international revenue and expenditure table for 1982 the total amount of long-term and short-term capital outflow was \$16.6 billion. This sum of outflow was covered by the \$8 billion inflow from monetary accounts and the \$11.6 billion surplus in the operating revenue and expenditure (plus errors and omissions). On the other hand, in the overseas assets and liabilities balance table, the inflow from monetary accounts becomes an increase in short-term liabilities and, at the same time, it can be assumed that there was a corresponding increase in assets.

In other words, this portion is as much of an asset as of a liability, and therefore has no effect on the increase or decrease in the net assets. Also, as for the capital outflow covered by the surplus in the operating revenue and expenditure (plus errors and omissions), since the operating revenue and expenditure have no direct bearings with the increase or decrease in the assets and liabilities balance, it only becomes either an increase in assets or a decrease in liabilities, thus producing an increase in net assets. In addition, the \$2.2 billion difference between the \$5.9 billion decrease in assets and the \$8.1 billion decrease in liabilities, which resulted from valuation readjustments and other factors, becomes an increase in net assets. Thus, the increase of net assets during 1982 amounted to \$13.8 billion, which is the sum total of the \$11.6 billion increase produced by transactions and the \$2.2 billion increase resulted from valuation readjustments.

Incidentally, in the overseas assets and liabilities balance table, as is the case with the international revenue and expenditure table, only the transactions between a resident and a nonresident are taken into account. For instance, a foreign currency loan to a resident (so-called impact loan) by a foreign-exchange authorized bank (hereafter referred to as "bank"), the import usance in the form of domestic loan, and the transactions at the Tokyo Dollar-Call Market are not taken into account because, although they are foreign currency-based transactions, they remain as a credit or a liability between the residents. Likewise, among the overseas loans (such as a syndicate loan) made by the bank, those issued in the name of an overseas branch (a nonresident) are not counted because they remain as a claim or a liability between the non-residents. But this does not necessarily mean that these claims and liabilities are not reflected at all in the overseas assets and liabilities balance table. A transaction between the bank and its overseas branch, despite its intrabank nature, is treated as a claim and liability between a resident and a nonresident. For example, a foreign currency loan to a resident or a domestic loan made by the bank will be indirectly reflected in the liability balance of the bank's account between the main office and the branch if the source capital for such a loan was provided by the overseas branch.

#### Overseas Assets and Liabilities Balance at End of 1982

(1) Net Assets. As of the end of 1982, our country's overseas assets balance was \$277.7 billion and overseas liabilities were \$203 billion, and their difference or the net assets amounted to \$74.7 billion. The net assets marked a significant increase of \$13.8 billion (126.1 percent) over the \$10.9 billion of the year before (totals may not agree due to rounding off). This happened because the increase in assets (\$18.4 billion) exceeded the increase in liabilities (\$4.7 billion) by a big margin. The amount of net assets, which represents our country's net assets in overseas, recorded its peak amount of \$36.2 billion at the end of 1978. Since then, however, due among other things to the deterioration in the operating revenue and expenditure picture caused by the second oil shock, it has continued to decline. The 1982 shift to an increase—the first in 4 years—was due primarily to the black ink in the operating revenue and expenditure.

Table 1. Relationship Between International Revenue and Expenditure Table and Overseas Assets and Liabilities Balance Table

International Revenue and Expenditure Table	Overseas Assets and Liabilities Balance Table
1. Operating revenue and expenditure Trade revenue and expenditure Nontrade transfer revenue and expenditure	1. Net assets $\{ (2 + 4) - (3 + 5) \}$
2 Long-term capital revenue and expenditure Domestic capital (asset) Foreign capital (liability)	2 Long-term assets 3 Long-term liabilities
3 Short-term capital revenue and expenditure Domestic capital (asset) Foreign capital (liability) (Overall revenue and expenditure = 1 + 2 + 3 + 5 )	4 Short-term assets 5 Short-term liabilities
4 Monetary accounts Foreign-exchange bank sector Assets Liabilities Official sector Assets Liabilities	4 Short-term assets 5 Short-term liabilities 4 Short-term assets 5 Short-term liabilities
5 Errors and omissions	6 Valuation adjustments, etc.

Table 2. Net Assets Balance Trend (in million dollars)

As of the end of	Net assets balance	As of the end of	Net assets balance
1967	(916)	1975	7,018
1968	270	1976	9,574
1969	1,714	1977	21,980
1970	4,674	1978	36,214
1971	9,773	1979	28,777
1972	13,867	1980	11,534
1973	13,016	1981	10,918
1974	8,943	1982	24,682



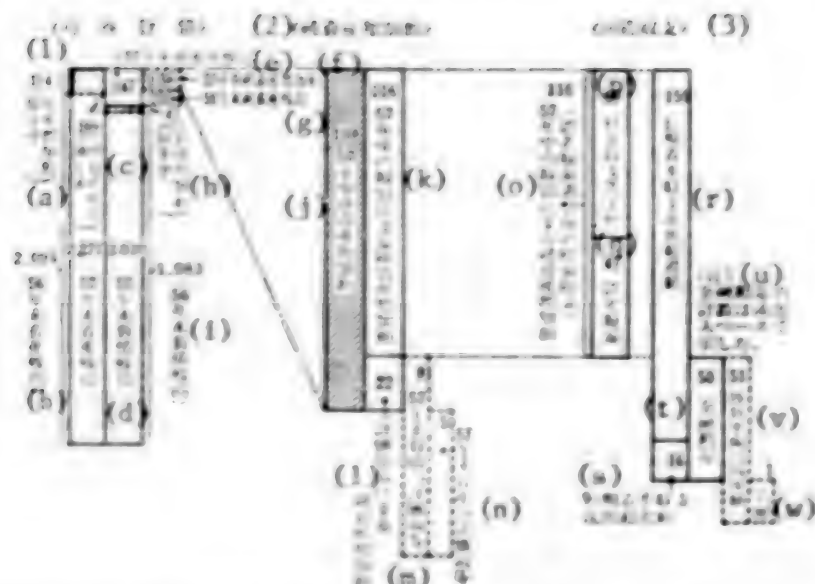


Figure. Relationship Between International Revenue and Expenditure of 1982 and Net Assets Increase and Decrease (in hundred million dollars)

Key:

- (1) Overseas Credits and Liabilities
- (2) Net Assets Increase
- (3) International Revenue and Expenditure
- (a) Assets increase in 1982
- (b) Asset balance at end of 1981
- (c) Net assets balance at end of 1981
- (d) Assets balance at end of 1982
- (e) Net assets balance at end of 1982
- (f) Net assets increase in 1982
- (g) Net assets balance at end of 1981
- (h) Liabilities increase in 1982
- (i) Liabilities balance at end of 1981
- (j) Net assets increase in 1982
- (k) Net assets increase from transactions in 1982
- (l) Net assets increase due to increased or decreased valuation
- (m) Decreased valuation of liabilities at end of 1982
- (n) Decreased valuation of assets at end of 1982
- (o) Net assets increase from transactions in 1982 (Operating revenue and expenditure after adjustments were made for errors and omissions)
- (p) Surplus in operating revenue and expenditure
- (q) Errors and omissions
- (r) Excess outflow in long-term capital revenue and expenditure
- (s) Excess outflow in short-term capital revenue and expenditure
- (t) Monetary accounts
- (u) Footnote: Figures for Monetary Accounts are based on outflow and inflow
- (v) Decrease in foreign currency reserve
- (w) Other

Looking at the net assets as of the end of 1982 by duration, in the long-term category the assets increase (\$22.4 billion) far exceeded the liabilities increase (\$7.3 billion) and, as a result, the assets surplus increased by \$15.1 billion (32.2 percent) over the amount as of the end of the previous year to reach the total of \$61.8 billion. In the short-term category, meanwhile, although the assets decreased (\$3.9 billion), so did the liabilities (\$2.6 billion), holding the increase in the deficit limited to \$1.3 billion (3.6 percent), which made the total deficit \$37.1 billion. In the past, generally speaking, a surplus in long-term assets but a deficit in short-term assets--or, put differently, short-term procurement but long-term utilization--has been the trend in the makeup by duration of our country's net assets. However, in the periods immediately before the first and the second oil shocks--i.e., end of 1972 and end of 1978--the short-term category, too, produced a surplus of \$10.8 billion and \$2.2 billion, respectively.

Looking at it by sector, in the private sector, in which the assets increase (\$21.8 billion) based primarily on securities investment far exceeded the liabilities increase (\$1.2 billion), the \$18.5 billion net liabilities as of the end of the year before made an about-face to \$2 billion net assets. This was only the second time--the first time being at the end of 1979 (\$0.9 billion)--the private sector ended in net assets. In the government sector, not only did the assets decrease (\$3.3 billion) due mainly to a decline in the foreign currency reserves but also the liabilities increased (\$3.5 billion), which reduced the net assets by (\$6.8 billion) to a total of \$22.6 billion. This was the first time in 3 years a decrease occurred in the government sector net assets. An excess of assets in the government sector comprised mainly of foreign currency reserves but an excess of liabilities in the private sector centered in its monetary accounts--this has been the general trend in the makeup by sector of the net assets, but at the end of 1982, for the first time in 3 years, the private sector produced an excess of assets.

At this point, a brief review of the trends to date seems to be in order. As of the end of 1968, our country ceased being a nation of net liabilities and became one of net assets and thereby, in essence, joined the ranks of creditor nations. At that time, however, our net assets merely amounted to less than \$0.3 billion. Helped by subsequent remarkable progress in our economy and favorable balance of international payments, our net assets grew to \$9.8 billion at the end of 1971--the year of Nixon shock--and to \$13.9 billion as of the end of 1972, exceeding for the first time the \$10 billion plateau.

But beginning 1973, when the foreign exchange market in general adopted the floating-rate system, the current account balance turned unfavorable due to the effect of the first oil shock of late that year, and this was accompanied by a continuing decline of net assets, which fell as low as to \$7 billion by the end of 1975, marking a 50 percent drop in 3 years.

Beginning 1976, however, reflecting the improvement in the current account balance brought about by the recovery of our national economy from the oil shock, the net assets once again resumed its upward trend, reaching the \$20 billion level by the end of 1977 and attaining the highest-ever amount of \$36.2 billion at the end of 1978.

From 1979 on, the current account balance showed a marked deterioration due to the effect of another oil shock and the net assets, too, declined sharply, by \$7.4 billion in 1979 and by \$17.2 billion in 1980. Again in 1981, while the current account balance was in the black, the net assets declined for the 3d year in a row, albeit only by \$0.6 billion this time, due mainly to a big upward valuation of stocks owned by foreigners (liabilities), shrinking to the amount less than one-third of the peak level reached at the end of 1978. Thus, the effect of the second oil shock on our country's net assets, when compared to that of the first oil shock, was 3.7 times greater in terms of the margin of monetary decline and 1.4 times greater in terms of the rate of decline from the respective peak immediately prior to each oil shock. But, as was mentioned earlier, in 1982 as a result of another surplus in the current account balance on the heels of one in the previous year, the net assets, too, turned around to a sharp increase. As was the case after the first oil shock, the net assets turned upward in the 4th year from the peak immediately prior to the shock, and the margin of recovery from the peak period—68 percent this time—was almost the same as that of the previous time (69 percent).

(2) *Overseas Assets Balance.* The overseas assets balance at the end of 1982 increased by \$18.4 billion (8.8 percent) over that of a year before to \$227.7 billion, which was a new all-time high as was the previous year-end balance.

The increase in assets during 1982 was due to a significant outflow of long-term capital from our country which occurred with further expansion of overseas activities by our country's businesses and a wide difference between domestic and foreign interest rates caused by high overseas interest rates in the background. Especially in the private sector, the long-term assets comprised mainly of securities investment, direct investment and loans recorded a sharp increase amounting to \$22.4 billion (19.1 percent). On the other hand, in the short-term assets category, although the private sector showed an increase (\$1 billion), the decrease (\$4.9 billion) in the government sector far exceeded that gain, which resulted in a decrease of \$3.9 billion (4.3 percent) in the overall short-term assets.

The size of our country's overseas assets expanded by 2.8 times in a 5-year period, which far exceeded the growth (1.8 times) of our export and import assets.

Looking at the overseas assets balance as of the end of 1982 by duration, 61.2 percent (\$139.5 billion) of it was long-term assets and 38.8 percent (\$88.8 billion) was short-term assets. The percentage of long-term assets has increased gradually from 37.1 percent at the end of 1972 to 52.6 percent at the end of 1977 and then to above the 60 percent level at the end of 1982. Viewed by sector, the private sector amounted to 76.4 percent (\$174 billion) while the government sector to 23.6 percent (\$53.7 billion). The percentage of the private sector has expanded from 46.9 percent at the end of 1972 to 57.4 percent at the end of 1977 and then to over the 70 percent level at the end of 1982.

Now, let us review by item the overseas assets balance as of the end of 1982.

Within the private sector of the long-term assets, the securities investment took up the largest share amounting to 17.6 percent (\$40.1 billion) of the

total assets. Included in this item are the balance of the bonds and stocks acquired at overseas markets by our country's investors and the balance of the yen-based foreign bonds issued at the Tokyo market by international agencies and the governments, public organizations or businesses of foreign countries. Overseas securities investment has increased markedly during the past 5 years, multiplying itself by 7.2 times in terms of monetary amount and by 2.5 times in terms of percentage. Especially during the last 2 years, with the softening of domestic supply and demand of funds and a wide difference between domestic and overseas interest rates in the background, the acquisition of foreign currency bonds has been vigorous among institutional investors such as life insurance companies. As a result, the overseas securities investment increased by \$10.1 billion in 1981 and by \$8.5 billion in 1982, thereby doubling itself in those 2 years.

The next largest share of the long-term assets belongs to direct investment which accounted for 12.7 percent (\$29 billion) of the total assets. Included in this item are capital subscriptions and loans provided by our country's businesses to their companies incorporated abroad. During the past 5 years, the direct investment share has contracted 2.2 percent as a result of a sharp increase in areas such as securities investment, but it has increased by 2.4 times in monetary value. The increase was especially great in 1981 and 1982--\$4.9 billion and \$4.5 billion, respectively. Such an increase occurred against the back drop of more aggressive resources development-oriented investment following the second oil shock, more active production activities abroad [by Japanese manufacturers] in order to avoid trade friction, and more inroads made by financial institutions into foreign countries. Coupled with that backdrop was a wide difference between domestic and foreign interest rates. Thus, it may be said that the increase in direct investment was the result of a marked acceleration in overseas investment and lending activities prompted by the factors related to the interest margin and the level of foreign exchange rates. Also, another unique feature of the period was that, for the reasons related to such factors as the interest margin, Japanese businesses stopped the capital procurement activity in foreign countries by their overseas subsidiaries and opted to provide more low-interest yen-loans to the subsidiaries from the parent companies in Japan.

The third largest share belongs to the loan category (10.2 percent or \$23.2 billion) in the private sector. Included in this item category are the overseas loans (so-called syndicate loans, etc.) provided to international agencies and the governments or businesses of foreign countries by Japanese banks plus the loans between the businesses other than financial institutions. Incidentally, of the overseas loans issued by the banks, which constitute the main offices in Japan are counted, excluding the ones issued in the names of their overseas branches. During the past 5 years, the loan category has grown sharply--5.4 times in amounts and 1.9 times in share, which was the most next only to the growth in securities investment. Looking at the trends in the loan category, in date there have been three periods in which large increases were made: the \$3.6 billion increase in the 2-year period from 1972 to 1973, the \$10.6 billion increase in the 2-year period from 1978 to 1979, and the \$6.4 billion increase in the 2-year period from 1981 to 1982. The sharp increase of the latest 2 years is attributable to the softening of the domestic



Table 3. Trends in Overseas Assets and Liabilities Balance (in million dollars)

		(1)				(2)				(3)				(4)			
		(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)
(7)	Assets	16,185	42,985	117,080	139,451	41.2	22,301	121.3	13,147	19,575	29,335	77,445	29.3	1,220	154.4		
(8)	Liabilities	11,894	28,177	69,289	119,025	49.3	26,756	112.4	11,695	16,649	49,736	11,987	28.2	1,220	71.6		
(9)	As of the end of 1972, 1977, 1981 and 1982	2,574	11,954	24,506	28,889	12.7	4,403	24.2	1,445	2,229	3,933	3,988	2.0	83	1.8		
(10)	Percentage composition	5,228	8,791	13,225	15,905	7.6	3,680	14.5	147	85	5	0	0.0	5	0.1		
(11)	Increase or decrease during 1982	1,472	4,322	18,944	23,228	10.7	4,284	23.1	1,764	1,754	1,479	1,225	0.7	153	1.2		
(12)	Percentage contribution to the increase	1,950	5,565	22,528	41,070	17.6	8,522	46.3	7,381	11,868	43,902	47,070	23.2	3,064	46.3		
(13)	Long-term	180	111	1,056	1,853	0.8	797	4.3	782	73	354	688	0.3	340	7.3		
(14)	Private sector	4,791	18,968	27,823	29,426	12.9	1,465	6.7	1,464	3,527	24,247	24,549	12.1	1,951	44.4		
(15)	Government sector	184	220	1,148	1,124	0.5	24	0.1	-	-	-	-	-	-	-		
(16)	Deferred payment on exports and imports	3,074	4,022	18,536	20,436	9.6	540	2.7	624	341	179	149	0.1	29	0.4		
(17)	Loans	-	-	-	-	-	-	-	217	2,146	20,419	24,390	11.0	1,980	45.2		
(18)	Securities investment	1,322	2,556	6,737	7,688	3.4	1,129	4.1	422	1,894	0	0	0.0	0	0.0		
(19)	Other	27,459	27,975	92,187	86,227	38.4	-3,859	-21.3	14,541	26,395	128,964	125,361	61.7	-2,645	-54.4		
(20)	Private sector	9,049	14,764	42,912	43,937	20.1	1,035	5.5	15,581	26,971	120,980	118,800	58.5	-2,173	-46.5		
(21)	Government sector	8,864	14,457	43,074	41,117	20.9	43	0.2	8,254	26,865	108,419	106,101	49.1	-2,016	-11.0		
(22)	Deferred payment on exports	176	207	1,828	2,400	1.2	972	5.3	7,225	9,210	28,361	18,766	9.2	-1,625	-35.5		
(23)	Loans	18,370	22,211	29,252	24,100	10.7	-4,945	-26.8	1,060	2,439	7,024	6,522	3.2	-472	-10.1		
(24)	Securities investment	18,365	22,212	29,252	24,100	10.7	-4,944	-26.8	728	1,905	2,922	3,864	1.9	-58	-1.2		
(25)	Other	5	1	2	2	0.0	1	0.0	274	925	3,102	2,688	1.3	-414	-8.9		
(26)	Total	41,365	85,088	209,257	227,586	100.0	18,431	100.0	25,728	54,980	198,229	203,996	100.0	4,647	100.0		
(27)	Private sector net assets	-4,829	-4,182	-18,537	2,046	8.3	29,580	161.5									
(28)	Government sector net assets	39,667	28,162	29,455	22,426	91.7	-4,879	-49.5									
(29)	Total net assets	13,847	23,980	10,918	24,472	100.0	13,704	100.0									

Key:

- |  |                                   |
|--|-----------------------------------|
| (1) Assets                                     | (18) Other                        |
| (2) Liabilities                                | (19) Short-term                   |
| (3) As of the end of 1972, 1977, 1981 and 1982 | (20) Private sector               |
| (4) Percentage composition                     | (21) Monetary accounts            |
| (5) Increase or decrease during 1982           | (22) Other                        |
| (6) Percentage contribution to the increase    | (23) Government sector            |
| (7) Long-term                                  | (24) Monetary accounts            |
| (8) Private sector                             | (25) Other                        |
| (9) Direct investment                          | (26) Total                        |
| (10) Deferred payment on exports and imports   | (27) Private sector net assets    |
| (11) Loans                                     | (28) Government sector net assets |
| (12) Securities investment                     | (29) Total net assets             |
| (13) Other                                     |                                   |
| (14) Government sector                         |                                   |
| (15) Deferred payment on exports               |                                   |
| (16) Loans                                     |                                   |
| (17) Securities investment                     |                                   |

financial market, the favorable balance of our international payments, the wide margin between domestic and foreign interest rates, and the strong demand from abroad for capital.

The deferred payments on exports in the private sector are the credit accommodations accompanying the export of plants, vessels, etc. This item made up a 12-percent share of the total assets and was a key entity in the long-term assets category as of the end of 1972. Recently, however, due to a sharp increase in other forms of assets such as securities investment, its relative share has declined, and at present its share is 7 percent (\$15.9 billion). In terms of monetary sum, on the other hand, it has increased by 1.8 times during the past 5 years, which was almost same as the rate of growth (1.7 times) in the value of exports. Incidentally, included in the "Other" category (0.8 percent, \$1.9 billion) are items such as lease claims and mid- and long-term bank deposits.

In the government sector of the long-term assets, the loan category makes up 9 percent (\$20.4 billion) of the total assets. Constituting the principal item of this category are the yen loans extended to the developing nations by the Export-Import Bank or out of the Overseas Economic Cooperation Fund. The government sector loans, which play a key role in our country's bilateral economic cooperation efforts, have declined somewhat in the relative share terms during the past 5 years due to a sharp increase in items such as securities investment, but have increased by 2.5 times in monetary value. The small increase (\$0.5 billion) of 1982 was due largely to the effect of exchange rates.

In addition, in the government sector of the long-term assets, the export of rice on deferred payment terms to the developing nations, which goes on as a part of our economic cooperation, represents 0.5 percent (\$1.1 billion), and the "Other" category, consisting mainly of capital subscriptions or contributions to such international development financial institutions as the World Bank, makes up 3.4 percent (\$7.9 billion).

In the private sector of the short-term assets, the monetary accounts make up the largest share of the total assets--26.9 percent (\$61.1 billion)--and the "other" category represents 1.2 percent (\$2.8 billion). The monetary accounts of the private sector denote the "balance of overseas short-term assets held by foreign-exchange authorized banks," which covers the account between the home office and the overseas branch, the deposits and the export trade bills, and this category corresponds to the so-called foreign exchange bank segment of the monetary accounts covering the balance of international payments. Of the balance as of the end of 1982, the foreign currency-based portion amounted to \$53.2 billion (component ratio of 87 percent) and the yen-based portion amounted to \$7.9 billion (component ratio of 13 percent). Compared to the end of the year before, the foreign currency-based portion declined by \$0.9 billion while the yen-based portion increased by \$0.9 billion, making the total practically unchanged from that of a year ago. The balance of monetary movements in the private sector recorded sharp increases of \$15.2 billion in 1980 and \$15.9 billion in 1981 due to factors such as an increased release of Euro-currency, but the picture changed drastically in 1982 and the balance was held to a minimal increase over that of a year ago. Included in the "Other" category (1.2 percent or \$2.8 billion) are trade credits, such as deferred

payments for 1 year or less on exports and prepayments on imports, and acquisitions of short-term securities in foreign countries.

The monetary accounts of the government sector accounted for 10.7 percent (\$24.3 billion) of the total assets and consisted mostly of foreign exchange reserves (\$23.2 billion). During 1982, faced with strong U.S. dollars across the board backed by high interest rates, the foreign exchange reserves declined by \$5.1 billion as a result of the need for market interventions, etc., and this in turn resulted in a decline of \$4.9 billion--the first such decline in 3 years--in the balance of monetary movements in the government sector. The monetary accounts of the government sector constituted 42.1 percent (\$18.4 billion) as of the end of 1972 and continued to occupy the largest share of the total assets till the end of 1976 (28.2 percent or \$33.5 billion), but thereafter the share began to shrink gradually as a result of the growing shares of the private sector's monetary accounts and securities investments, and it has fallen to as low as near 10 percent at the end of 1982.

As we have examined above, the scope of our country's overseas assets has rapidly expanded in recent years, and particularly noteworthy is the marked increase in the private sector long-term assets consisting mainly of securities investments and loans. Meanwhile, looking at the share ranking by item categories within the long-term assets, the ranking as of the end of 1972 was in the order of the private sector's deferred payments on exports, the government sector's loans and direct investments, but as of the end of 1977 the order changed to direct investments, the private sector's deferred payments on exports and the government sector's loans, and at the end of 1982 further changes in the ranking have placed securities investments at the top, followed by direct investments and the civilian sector's loans in that order. Exports on deferred payments have declined sharply while securities investments and loans in the private sector have increased and, as a result, the assets structure has changed significantly, also.

Thus, even viewed on the basis of the overseas assets and liabilities balance, it is clear that the internationalization of our country's economy, which had been export and import oriented in the past, has rapidly placed more weight on capital transactions in recent years. The expansion in the scope and the change in the structure of the assets may be viewed as an indication of the increased maturity of our country as a creditor nation, but at the same time it can also be said that the questions related to such matters as management of overseas credits, stable and effective procurement of capital, coordination of domestic and foreign financial and capital markets in relation to foreign exchange rates, etc., have now become more important than ever before.

(3) Balance of Overseas Liabilities. The overseas liabilities balance as of the end of 1982 increased over that of a year ago by \$4.7 billion (2.4 percent) to \$201 billion, which was another new all-time high as was the balance at the end of the previous year. Understandably, the overseas liabilities balance, too, as was the case with the assets balance, has multiplied itself 3.4 times during the past 5 years, but the increase in 1982 alone was held in a small size.

This was due to the fact that the securities investment in Japan by foreign nationals was sluggish for the year as a whole in comparison with the previous year, although it did become very brisk toward the end of the year due to a favorable swing in market conditions and in the yen rates, and that, as a result, the long-term liabilities consisting mainly of domestic securities investment increased by a smaller amount (\$7.3 billion) than the increase of the previous year and, furthermore, the short-term liabilities declined (\$2.6 billion).

Looking at the percentage distribution by term of the overseas liabilities balance as of the end of 1982, the long-term liabilities accounted for 38.3 percent (\$77.6 billion) while the short-term liabilities made up 61.7 percent (\$125.4 billion). The percentage share of short-term liabilities rose from 55.8 percent as of the end of 1972 to as high as 79.1 percent by the end of 1974 in the wake of the first oil shock. It declined to 64.5 percent as of the end of 1978 but another oil shock pushed it back up to 68.1 percent by the end of 1980. Since then it has been declining and at present it is down to the vicinity of 60 percent.

As for the composition by sector, the private sector accounted for 84.7 percent (\$171.9 billion) while the government sector made up 15.3 percent (\$31.1 billion). The percentage share of the private sector consisting mainly of monetary accounts made up 91.7 percent of the total liabilities as of the end of 1972 but was down to 89.7 percent at the end of 1977. Since then it has been hovering over the 80 percent mark while maintaining a slight downward trend. This decline has been due largely to a gradual increase in the percentage share of the securities investment in the government sector.

Now, let us examine by item category the overseas liabilities balance as of the end of 1982.

In the long-term liabilities, the securities investment by the private sector accounted for 23.2 percent (\$47.1 billion) of the total liabilities while the securities investment by the government sector made up 12 percent (\$24.4 billion), which means that the combined securities investment of the two sectors constituted nearly all of the long-term liabilities. Included in the securities investment category of the private sector are the stocks and corporate bonds acquired at the domestic market by foreign nationals and the balance of external bonds issued abroad by Japanese business concerns. Covered under the securities investment of the government sector is the balance of items such as our country's government bonds purchased by foreign nationals. The combined securities investment of both sectors has risen sharply during the last 7 years—by 7.1 times in amounts and 1.4 times in percentage share. Beneficial due to a massive inflow of oil money and European and American pension funds into our securities market since 1980 coupled with the increased issuance of external bonds in 1981 and 1982, the securities investment increased to \$11.7 billion in 1980, \$22.3 billion in 1981 and \$7.1 billion in 1982.

The percentage share of the direct investment category, which consists of items such as capital subscriptions to Japanese corporations and loans extended to their subsidiaries in Japan by foreign nationals, has been around



the 2 percent rate (\$4 billion) during the past 3 years. The combined percentage share of the private sector loan category, which consists of impact loans secured from foreign countries and monies borrowed from the Export-Import Bank of America, and of the government sector loan category, which in the olden days usually consisted of loans from the World Bank and was the predominant source of capital for our country's economic rehabilitation after World War II, has continued to decline from 8 percent (\$2.4 billion) at the end of 1972 to 3.6 percent (\$2.1 billion) as of the end of 1977 and finally down to the low of 0.7 percent (\$1.5 billion) at the end of 1982. Incidentally, the "Other" category (0.3 percent, \$0.7 billion) covers items such as lease liabilities and mid- and long-term bank deposits.

Within the short-term liabilities, the private sector monetary accounts make up the largest share of the total liabilities--49.3 percent (\$100.1 billion). This item category represents the "balance of the overseas short-term liabilities of the foreign-exchange authorized banks," which consists mainly of the account between the home office and the branch offices and the deposit account, and it corresponds, like in the case of the assets, to the so-called exchange bank segment of the monetary accounts for the international balance of payments. Of the balance as of the end of 1982, the foreign currency-based portion amounted to \$86 billion (component ratio of 86 percent) and the yen-based portion amounted to \$14.1 billion (component ratio of 14 percent). Compared to the picture of a year ago, the foreign currency-based portion declined in \$1 billion while the yen-based portion increased by \$0.5 billion, resulting in a net decrease of \$0.5 billion. The balance of monetary movements in the private sector, reflecting the increased procurment of foreign-currency capital from abroad and the expanded introduction of Euro-capital, both of which occurred in response to a sharp increase in domestic loans (import usance) after the second oil shock and a rapid increase in foreign-currency loans to the residents following the enforcement of the new Foreign Exchange Bank Law, increased sharply in 1980 and 1981--by \$27.8 billion and \$22.6 billion, respectively. But in 1982, while foreign-currency loans to the residents increased, due to the tapering-off in the growth of Euro-currency transactions and the decrease in domestic loans caused by declining imports, the monetary movements in the private sector made an about-face, resulting in a decline, albeit by a small amount. This was the second such decline in the balance of the private sector monetary movements, the first being the decline of 1977 (\$1.5 billion). The "Other" item category (9.2 percent, \$18.7 billion) of the private sector consists mainly of trade credits, such as advance payments on exports and BC usance, and forward transactions. In 1982 this category recorded a decrease of \$1.7 billion due primarily to the impact of forward transactions.

The monetary account balance (1.9 percent, \$3.9 billion) of the government sector represents items such as deposits made with the Bank of Japan by monetary authorities of foreign countries. The "Other" item category (1.3 percent, \$2.7 billion) represents items such as uncashed portion of government bonds in lieu of currency used for capital subscriptions or contributions to international development financial institutions.

As we have already observed, the major portion of the balance of our country's overseas liabilities is comprised of short-term private sector monetary accounts and long-term domestic securities investments. As our country's import financing is heavily dependent upon overseas capital, the balance of monetary accounts in the private sector registered a sharp increase on each of the two oil-shock occasions, but in 1982 it declined, albeit slightly, due to factors such as a decrease in imports. As for the domestic securities investment, which has been on the rise in recent years, what is desirable is its continued and stable growth in the future as well in close relation to the evolution of domestic and foreign financial capital markets.

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## ECONOMIC

### BANK GOVERNOR URGES YEN INTERNATIONALIZATION

OW090933 Tokyo KYODO in English 0756 GMT 9 Nov 83

[Text] Tokyo, 9 Nov (KYODO)--The Bank of Japan expects traders to use the yen more often to promote the currency's internationalization, Governor Haruo Maekawa said Wednesday. "I am for it but there is no effective means to encourage it," he said of the yen's internationalization, possibly one of the key issues to be discussed during the Japan-U.S. summit meeting here.

Maekawa said at a news conference that the Japanese Central Bank on various occasions has urged Japanese traders to settle external transactions in yen. He also said there are different interpretations as to the yen's internationalization. Whether or not the Japanese Government should promote such a move is quite another matter, he added.

He made the remarks in response to U.S. Treasury Secretary Donald Regan's statement in Washington that the Japanese currency should be utilized in such dealings more often to correct the yen-dollar disparity.

Maekawa, like Regan and other American officials, feels "it is unnatural in everyone's eye" to see nearly all of Japanese imports being carried out in dollar instead of yen, he added.

When asked if the Central Bank or the Japanese Government is considering taking steps to help the yen appreciate against the U.S. currency, Maekawa said he has been unable to find any remedial measure which could promptly achieve the aim.

The yen finished Wednesday's trading at 236.75 to the dollar, up from Tuesday's closing rate of 237.25. The Japanese currency closed last week's trading on the Tokyo foreign exchange market at 234.63 to the U.S. unit.

Despite the yen's decline since late last week, Maekawa said the Central Bank does not intend to intervene in the money market to bring the yen-dollar level to the previous week's level of below 234-235 to the dollar.

Floating of Japanese Government bonds or so-called Nakasone bonds abroad is possible, he said; he cautioned, however, such flotation by a country with a sizable current account surplus may further widen the surplus.

"First of all, there has to be a law" to float Japanese bonds in other countries, Maekawa pointed out, adding the value and the capital market involved will determine the impact of Nakasone bonds.

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## ECONOMIC

### JAPAN, U.S. TO SET UP EXCHANGE RATE AD HOC GROUP

OW100751 Tokyo KYODO in English 0733 GMT 10 Nov 83

[Text] Tokyo, 10 Nov (KYODO)--Japan and the United States agreed Thursday to set up an ad hoc group on yen-dollar exchange rate so as to pursue "appropriate monetary and fiscal policies" for sustained economic growth. The agreement was reached between Finance Minister Noboru Takeshita and U.S. Deputy Treasury Secretary Timothy McNamar who is travelling with President Ronald Reagan on behalf of Treasury Secretary Donald Regan.

The two governments also underscored the importance of "open, liberal capital markets and the free movement of capital to the operation of an effectively functioning international monetary system."

Takeshita and Regan also reaffirmed the understanding reached at the Williamsburg summit last May to "undertake coordinated intervention to counter disorderly market conditions," a joint statement said.

The two countries also agreed to "pursue appropriate monetary and fiscal policies that will promote sustained real economic growth, reduced interest rates and higher productive investment," the statement said.

The statement, issued following a top-level meeting between Finance Ministry and Treasury Department officials, spelled out the Japanese Government's decisions, among others, to expedite the study on establishment of a yen-denominated bankers' acceptance market and scrap the real demand rule in forward exchange transactions from 1 April next year.

Japan also decided to try to lower the minimum denomination of certificates of deposit (CDS) from 500 million yen (2.1 million dollars) to 300 million yen (1.27 million dollars), effective 1 January.

The United States for its part promised to "pursue as quickly as possible" a reduction of the U.S. budget deficit by taking additional steps to cut federal spending.

The U.S. Treasury, said the joint statement, also acknowledged the Japanese concern over unitary taxation in certain American states which the Japanese say are detrimental to promotion of mutual investment in each other's countries.

Concluding two rounds of productive summit talks with Prime Minister Yasuhiro Nakasone, President Reagan admitted there is "no single overnight solution" to these monetary and fiscal problems. But he told reporters the joint ad hoc group of financial authorities on the currency issues will monitor progress in executing the agreed upon measures to "improve the yen-dollar exchange rate."

The two countries agreed to implement additional measures, such as increasing use of yen in denominating Japanese exports, the Finance Ministry and the U.S. Treasury Department jointly announced.

The high-level monitoring committee will be co-chaired by Takeshita and Reagan and a working group at the under-secretary level will meet by February and submit a report on possible diagnoses to the chairmen by spring 1984.

The joint statement also said that Japan and the United States will cooperate in dealing with the developing countries' debt problems to support adjustment efforts by debtor countries.

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